TIANNENG POWER INTERNATIONAL LIMITED
天能動力國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 00819

Annual Report 2012

循環再生 **動力之源**

Recycling **Power Source**

CONTENTS

2012
New Opportunities,
New Development

Profit for the year (RMB)

709,399,000

Earnings per share

RMB¢ / HK¢
64.8 / 80.2

Proposed Dividends per share (HK¢)

23.8

TIANNENG POWER

RECYCLING POWER

Corporate Information

EXECUTIVE DIRECTORS

Mr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Chen Minru
Mr. Zhang Kaihong
Mr. Shi Borong
Mr. Yang Lianming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Tso Hsiu
Mr. Huang Dongliang
Mr. Wang Jingzhong

AUDIT COMMITTEE MEMBERS

Mr. Huang Dongliang *(Chairman)*
Mr. Wang Jingzhong
Mr. Ho Tso Hsiu

REMUNERATION COMMITTEE MEMBERS

Mr. Wang Jingzhong *(Chairman)*
Mr. Chen Minru
Mr. Huang Dongliang

NOMINATION COMMITTEE MEMBERS

Mr. Zhang Tianren *(Chairman)*
Mr. Huang Dongliang
Mr. Wang Jingzhong

COMPANY SECRETARY

Ms. Hui Wai Man Shirley

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISER

Gallant Y.T. Ho & Co.
5th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

COMPLIANCE ADVISER

Kingsway Capital Limited
7/F, Tower One, Lippo Centre,
89 Queensway, Hong Kong

STATUTORY ADDRESS

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5509, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PUBLIC RELATIONS

Strategic Financial Relations (China) Limited
Suite 2402, 24/F, Admiralty Centre 1
18 Harcourt Road
Hong Kong

LISTING INFORMATION

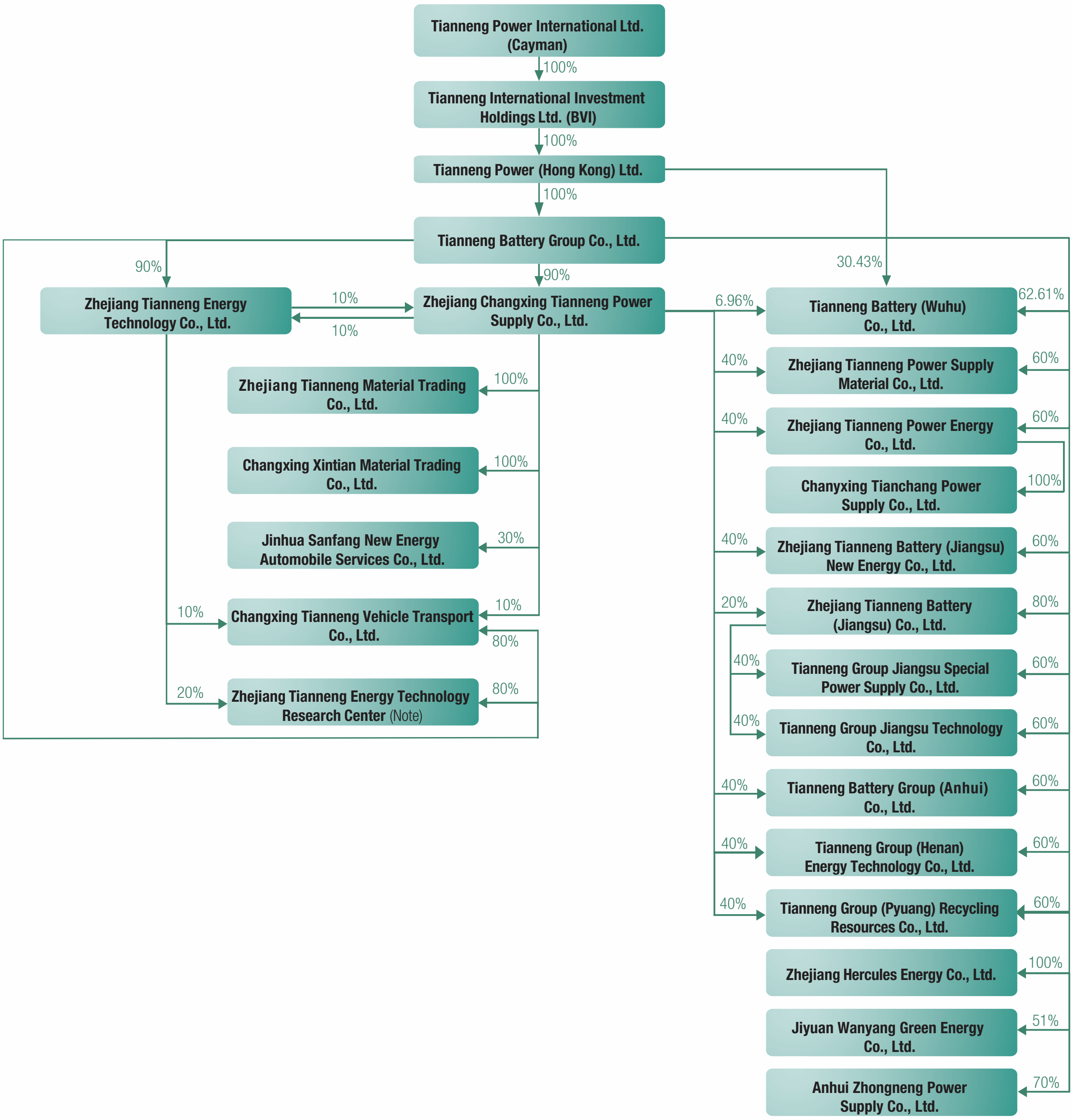
The Stock Exchange of Hong Kong Limited
Stock Code: 00819

COMPANY'S WEBSITE

http://www.tianneng.com.hk

Corporate Structure

The following diagram illustrates the Group's shareholding and corporate structure:



Note: It is an unincorporated association.

Company Profile

Tianneng Power International Limited (the "**Company**" or "**Tianneng Power**") and its subsidiaries (the "**Group**") are engaged in the production and sale of i) motive battery products applicable to electric vehicles and ii) new energy storage battery products in the People's Republic of China ("**China**" or "**PRC**"). As at 31 December 2012, the Company is one of the largest listed lead-acid motive battery providers for the electric vehicle market in China.

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the companies law of the Cayman Islands on 16 November 2004. It completed its initial public offering of 300,000,000 shares on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 June 2007.

As at 31 December 2012, the Group had eight production bases, which are located in (1) Changxing Headquarter, (2) Meishan Town and (3) Wushan Town of Changxing County in Zhejiang Province, (4) Shuyang County in Jiangsu Province, (5) Wuhu City and (6) Jieshou City in Anhui Province, and (7) Puyang City (construction in progress) and (8) Jiyuan City in Henan Province in China respectively. The annual production capacity for electric bike lead-acid motive battery products was approximately 80 million units in total.

The Company continued to achieve growth in its profits and increased its competitiveness during the year of 2012. The success of the Company was attributable to the following competitive advantages: (1) strong brand recognition and market leadership; (2) unique technology know-how to produce high-quality motive battery products and effective cost controls; (3) strong distribution and service network satisfying the demands in both primary and secondary markets; (4) strong product research and development capability; (5) strong promotion of recycling industry; and (6) strong and experienced management team.

Regarding its future development, the Company will continue to focus on the development of electric vehicle motive battery market and new energy storage battery market in China and to achieve further growth by (i) expansion of its production capacity; (ii) cost controls and efficiency improvement; (iii) extending application of existing products; (iv) the development of new products such as lead-acid, nickel hydride and lithium motive battery for electric car and high capacity storage battery for wind and solar power generation system; and (v) establishment of recycling base for used battery.

Note: Electric vehicles include electric bike, electric motorcycle and electric car.

Financial Highlights

(Amount expressed in thousand of RMB except per share data)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (NOTE 1)

	Year ended 31st December				
	2012	2011	2010	2009	2008
Turnover	**9,887,641**	5,438,321	3,752,813	2,254,947	2,585,301
Profit before taxation	**912,515**	829,685	428,752	319,674	278,598
Taxation	**(203,116)**	(213,698)	(82,472)	(48,979)	(44,390)
Profit for the year	**709,399**	615,987	346,280	270,695	234,208
Non-controlling interest	**738**	–	–	–	–
Profit attributable to owners of the Company	**710,137**	615,987	346,280	270,695	234,208
Earnings per share (RMB/share)					
– Basic	**0.65**	0.57	0.32	0.27	0.23
– Diluted	**0.64**	0.56	0.32	0.26	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (NOTE 2)

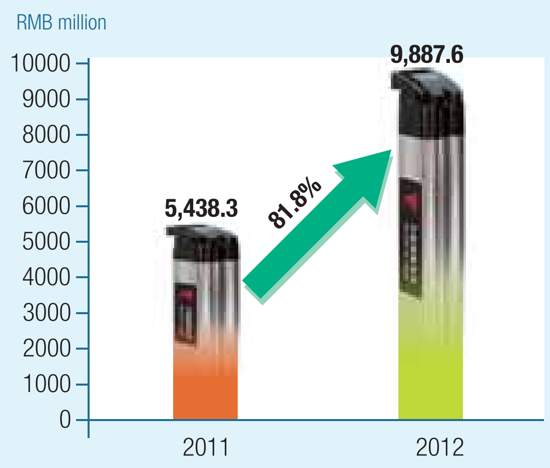
	As at 31st December				
	2012	2011	2010	2009	2008
Total assets	**7,445,211**	4,782,851	3,084,525	2,258,414	1,668,194
Total liabilities	**4,322,868**	2,282,377	1,128,363	575,892	431,912
Net assets/Total equity	**3,122,343**	2,500,474	1,956,162	1,682,522	1,236,282

Notes:

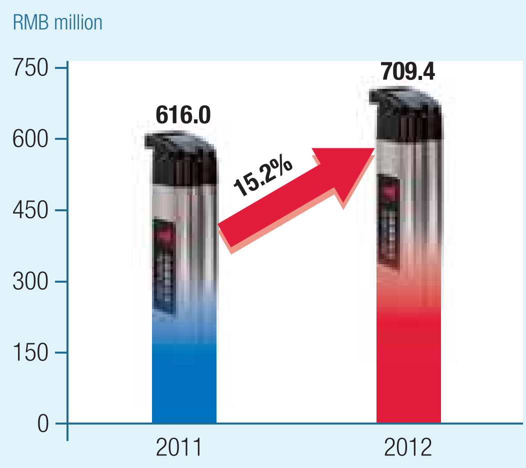
1. The results for the years ended 31 December 2008 are set out on page 45 of the Company's 2008 Annual Report. The results for the year ended 31 December 2009 and 2010 are set out on page 56 of the Company's 2010 annual report. The results for the year ended 31 December 2011 and 2012 are set out on page 58 of this annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

2. The consolidated statements of financial position as at 31 December 2008 are set out on page 46 of the Company's 2008 Annual Report. The consolidated statements of financial position as at 31 December 2009 and 2010 are set out on page 57 of the Company's 2010 annual report. The consolidated statements of financial position as at 31 December 2011 and 2012 are set out on page 59 of this annual report. All such information is extracted from the financial statements prepared under HKFRSs.

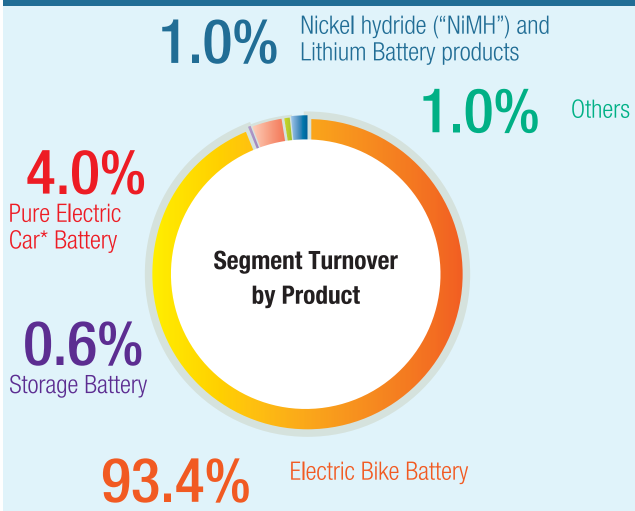
SALES TURNOVER



NET PROFIT



SEGMENT TURNOVER



ELECTRIC BIKE LEAD-ACID BATTERY PRODUCTS MARKET SEGMENTS

* Electric car includes pure electric sedans, electric forklifts, electric patrol cars and special-purpose electric cars etc.

Chairman's Statement

It is my pleasure to present the annual report of the Company for the year ended 31 December 2012.

Zhang Tianren
Chairman

Dear Shareholders,

It is my pleasure to present the annual report of the Company for the year ended 31 December 2012 ("the year/period under review" or "year 2012").

PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND DIVIDEND FOR THE YEAR

During the period under review, the Group's consolidated turnover was approximately RMB9,888 million (2011: approximately RMB5,438 million), representing an increase of approximately 81.83% as compared to the previous year. The Group's profit attributable to owners of the Company was approximately RMB710 million (2011: approximately RMB616 million), representing an increase of 15.26% as compared to the previous year. The Group's basic earning per share amounted to RMB0.65 (2011: RMB0.57). The Company proposes to declare a cash dividend of HK23.8 cents for each ordinary share of the Company (the "**Share**") held by the shareholders of the Company (the "**Shareholders**"). The distribution of final dividend shall be subject to shareholders' approval at the annual general meeting to be held on 18 May 2013.

UPLIFT OF ENTRY REQUIREMENTS – FAVOURABLE NATIONAL POLICY

Ministry of Industry and Information Technology and Ministry of Environmental Protection collectively released the "Entry Requirements of Lead Battery Industry" ("Entry Requirements") on 31 May 2012 to promote the structural adjustment and industrial upgrading of the lead battery industry and was formally implemented on 1 July 2012. The policy formulated corresponding provisions to various aspects including enterprise layout, production capacity, construction project that does not meet the entry requirements, technology and equipment, environmental protection, occupational health and production safety, energy-saving and recycling, and supervision and administration. The policy makes clear that the Chinese government will further uplift the operating threshold of existing and newly-built lead battery projects.

As one of the leading lead battery enterprises, the Group will fully implement the provision of the Entry Requirments and will continuously upgrade the environmental protection management quality in production area.

LEADING POSITION – ELECTRIC BIKE MOTIVE BATTERY

As one of the largest lead-acid motive battery producer for electric bike market in China, Tianneng Power is devoted to providing clean energy for its customers, and creating long-term and growing returns for the Shareholders. Driven by electric bike motive battery business, the Group has maintained continuous growth in profit from 2003 to 2012. For the year ended 2012, the profit attributable to the Company's owners increased 15.28% as compared with previous year.

As the market of electric bike continues to expand, the demand for battery products for new electric bikes ("Primary Market") and demand for replacing old battery ("Secondary Market") maintained a strong growth. The Group intended to grasp such market opportunities through enhancing production capacity, increasing OEM operation and expanding the distribution network.

THRIVING GROWTH – NEW ENERGY VEHICLE MOTIVE BATTERY

The PRC government continued to promulgate stimulating measures to encourage the development of new energy and new energy car. In September 2010, the State Council agreed to the supportive policy for strategic emerging industries, which confirmed the new energy and new energy car industry as a key direction of the strategic emerging industries. The Group relied on its successful experience in motive battery for electric bike and aggressively carried out research on the lead-acid, nickel hydride and lithium motive battery for electric car. Also, the Group commenced cooperation with 121 famous auto corporations such as SAIC Motor, Chery Automobile, Wonder Auto, Kandi Auto, Zotye Auto and Shifeng Group. For the year ended 31 December 2012, the Group recorded RMB393 million from the sale of motive battery for electric car, representing a growth of approximately 42.3% as compared with the previous year and accounted for approximately 4.0% of the Group's total sales.

STRATEGIC MOVES – NEW ENERGY STORAGE BATTERY

During the year under review, the Group continued the business development on storage battery for wind and solar power generation system and continued the development of storage battery with long lifetime and high capacity. Although the wind and solar power industry was under adjustment during the year, the Group still maintained close communication and business relationship with major corporations and continued to adopt strategic marketing network planning in major new energy markets, such as Inner Mongolia, Xinjian and Yunnan. For the year ended 31 December 2012, the Group recorded RMB59.4 million from the sale of new storage battery, accounting for approximately 0.6% of the Group's total sales.

CONSTRUCTION AND EXPANSION

Production Base and Capacity Expansion:

The Group increased the number of production bases to eight organically or by acquisition. Subsequently, the production capacity of electric bike lead-acid motive battery was increased from 65 million units by the end of 2011 to 80 million units by the end of 2012. Of our production bases, the construction of phase I of Wushan base was completed and commenced production during the year. Through project acquisitions, Jiyuan base was acquired and the Jieshou base was further expanded. The construction progress of Puyang base was also on schedule. In conclusion, all these eight production bases will be the foundation of the Group's expansion in the battery market in the future.

Market Expansion: The Group will continue to increase its production capacity by means of building up its own plants, strategic cooperation as well as merger and acquisition to be financed by internal resources or external financing as necessary. The Group will also enlarge its market share by expanding its distribution network. The number of distributors of the Group has increased from 952 for the year ended 31 December 2011 to 1,314 for the year ended 31 December 2012, which covered most of the provinces in PRC.

Vertical Integration Expansion: The plant construction of the Group's used battery recycling project locating in Changxing Wushan base has been completed and trial production was commenced in September 2012. It has a designed capacity of recycling 150,000 used lead-acid battery per annum and producing 100,000 tonnes recycled lead for the Group's consumption or sales.

OUTLOOK

In the electric bike motive battery business development, the Chinese government will continuously improve the rules and regulations of lead-acid battery industry, and also open lead forward market platform. It will facilitate the consolidation within the industry, which is beneficial to the long-term growth of the industry. According to the 2012 Industry Report of China Automotive Technology and Research Center ("CATARC Report"), it is anticipated that the CAGR of motive battery demand of electric bike primary market and motive battery demand of electric bike secondary replacement market from 2013 to 2020 will be 7.1% and 10.25% respectively.

It is also expected the electric bike ownership will reach 200 million in 2015, of which, lead-acid battery will still be the major source of electric bike motive battery and it is anticipated that lead-acid battery will possess approximately 97% market share of electric bike motive battery from 2013 to 2020. It is foreseeable that lead-acid battery will continue to dominate the market in the coming few years. As one of the largest manufacturers of lead-acid battery, the Group will make better use of its advantages and market forces to continue to strengthen its leading position in the market.

In the new energy car motive battery business development, motor vehicle electrification has become an unalterable trend in China and in the world. In particular, commercial production and sale of low-speed electric cars have commenced in China, mainly for use as taxis, family cars, urban service vehicles and trucks. According to the CATARC Report, the industrialization of China's electric cars will experience a transformation from low speed to high speed, low speed electric cars will take the lead to achieve industrialization with huge market potential in the future. The low-speed electric car is commonly referred to as light electric car that is equipped with new type of environmental-friendly lead-acid battery with maximum speed not exceeding the range of 50 km/h to 70km/h. Currently, the low-speed electric car industry in China has begun to take shape and there is huge growth potential. The local governments in provinces such as Shandong, Jiangsu and Anhui in China have issued administrative measures on low-speed electric car and the Chinese government has brought into consideration setting up of standards and regulations on such product. It is expected that the development of low-speed electric car will drive the growth of sales volume of lead-acid battery enterprises. After considering the national policy and conditions as well as the Group's competitive advantages, the Group will allocate more resources in the development of "low speed-affordable-safe" new energy cars motive battery.

In the storage battery business development, although the new energy storage industry is currently in the transition from the introduction stage to the growth stage, the Group will still closely monitor the market development in order to become one of the first movers in the on-grid and off-grid new energy storage battery market.

Finally, in the resources recycling business development, "Entry Requirements" states clearly that lead battery enterprises should bear more social responsibilities as battery manufactures. The recycled products produced by unqualified recyclers could not be purchased. The battery sales network should be used for building up the old lead batteries collection system. Therefore, promoting the used battery recycling plant which is located in Changxing Wushan base to reach full capacity is an important target of the Group. The Group also started to build the second used battery recycling plant in Puyang City, Henan Province in June 2012. While achieving the goals of environmental protection, upgrade of recycling technology and reduction of battery production cost, the Group expects to become a new benchmark within the lead recycling industry in China.

In conclusion, the Group will continuously adopt product diversification, battery recycling development, production capacity expansion, sales network expansion as well as brand building as core strategies of future development. Pursuing the belief of "New Energy New World" and aiming at becoming the "Global Leading New Green Energy Provider", I strongly believe that the Group is capable of achieving its healthy and steady growth and contributing better returns to the Shareholders in the long run.

APPRECIATION

I would like to take this opportunity to express our gratitude to our employees for their contributions and hard work and to the Shareholders and business partners for their support.

Zhang Tianren
Chairman

Hong Kong, 19 March 2013

Management Discussion and Analysis

The Group is principally engaged in the production and sale of motive batteries applicable to electric vehicles. Its motive battery products are sold under its own brand name "TIANNENG" and are predominantly used in electric bikes, electric motorcycles and electric cars sold and distributed in the PRC. The Group also manufactures new energy storage battery mainly for wind and solar power generation system. For the year 2012, the Group is one of the largest manufacturer of lead-acid motive battery for electric bike and electric vehicle ("EV") in China.

REVIEW OF OPERATIONS

In respect of sales, during the year under review, the electric bike lead-acid motive battery sales revenue generated from primary market reached RMB2,956 million, an increase of 60.9% when compared with the previous year. The electric bike lead-acid motive battery sales revenue generated from the secondary market (or replacement market) was RMB6,276 million, an increase of 100.0% when compared with the previous year. As at 31 December 2012, the Group had 1,314 distributors in total, representing an increase of 362 distributors as compared with 952 distributors as at 31 December 2011. This enabled the Group's sales and distribution network for the secondary market to cover most provinces of China. The electric bike lead-acid motive battery sales revenue generated from primary and secondary market was approximately 32.0% and 68.0% respectively in proportion.

In respect of raw materials, during the year ended 31 December 2012, the weighted average lead purchase price net of value added tax was approximately RMB13,081 per metric ton (2011: approximately RMB13,795 per metric ton), representing a decrease of 5.2% as compared with last year. On the other hand, the weighted average motive lead-acid motive battery selling price net of value added tax was approximately RMB104.4 (2011: approximately RMB117.3), representing a decrease of 11.0% as compared with last year. The gross profit margin of the Group was 18.76% (2011: 26.39%).

In respect of the development of the motive battery for electric car, the sales of motive battery for electric car for the year was RMB393 million, accounting for 4.0% of total sales. The Group's motive batteries have been assembled with the products of various electric car manufacturers with different scales of mass production. By the end of year 2012, the Group has built up strategic relationship with Chery Automobile, Shanghai Automobile, Shifeng Group and Kandi Auto etc.

In respect of the used battery recycling project, in order to recycle and handle the used batteries in a better way, the Group commenced the construction of project locating in Changxing Wushan base in 2009. In September 2010, the relevant departments of the Chinese government put this project under "Revival and Technology Reform Investment Scheme for National Major Industries", from which RMB5.6 million subsidy was granted. It was also a recognition by the Chinese government of its contribution towards the technological improvement in the battery recycling industry. In 2012, a further RMB3 million special fund was approved by the government.

In respect of the building of production base, the construction of Tianneng Recycling Economic Industrial Park in Wushan, Changxing, Zhejiang Province was completed and commenced trial production in September 2012. In 2013, the motive battery production capacity of Tianneng Recycling Economic Industrial Park will be 17 million and the annual processing capacity of used battery will be 150,000 tonnes with a recycled lead production capacity of 100,000 tonnes. By the end of 2012, lead-acid motive battery capacity of the Group reached 80 million units (2011: 65 million units), an increase of 23%. In addition, the Group announced in September 2011 that a production base would be established at Puyang City, Henan Province. The total investment of RMB3 billion will be made within 5 to 6 years. Construction for the first phase started in June 2012. Please refer to the Group's announcement dated 19 September 2011 for the further details.

In respect of research and development, in order to maintain product competitiveness, the Group made extensive investment in research and development. The Group's research and development activities focused on developing clean, durable and environmental-friendly new energy products. In July 2008, the Chinese government approved the upgrade of the Group's Post-doctoral Scientific Research Workstation from provincial level to national level and Tianneng Energy Research Centre (天能能源科技研究院) was established in June 2009, enabling the Group to recruit and attract top research scientists and enjoy more benefits from the Chinese government. Moreover, the Group set up Pb-C Super Battery Joint Lab with Harbin Institute of Technology in April 2010 and established Academician and Expert Workstation in September 2010, focusing on the research of new type of battery material and new energy battery. In 2011, the Group's subsidiaries Tianneng Battery Group Co., Ltd., Zhejiang Tianneng Energy Technology Co., Ltd, Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. and Tianneng Battery (Wuhu) Co., Ltd. were approved as High Technology Enterprise respectively. In November 2012, the Group's Technology Center was rated as the first State-level enterprise technology centre in the industry.

Major R&D Achievements:

In May 2012, the "energy-efficient rare earths silicon motive storage battery (6-DZM-20)" was awarded the certificate of "National New Product";

In October 2012, the "new type high-capacity photovoltaic storage battery" was awarded the certificate of "Zhejiang Province Provincial Industrial New Product";

In October 2012, the "high capacity new cadmium-free nano silica gel motive battery" was awarded the certificate of "Zhejiang Province Provincial Industrial New Product";

In December 2012, the "Tianneng Cylindrical lithium battery (36V-10AH)" passed the Germany BATSO authentication

As at 31 December 2012, the Group's research team consisted of 388 staff and the research and development costs increased by approximately 48.3% as compared with the previous year. The increase was mainly due to the Group's allocation of more resources to individual major projects such as lithium iron phosphate battery project, silica gel battery project and nano rare earth battery project, etc. In order to speed up the development of motive battery for pure electric cars, the Group entered into various technical cooperation arrangements with certain car manufacturers such as Chery Automobile, SAIC Group and Kandi Auto.

In respect of environmental protection, as a listed company, the Group places great emphasis on taking up social responsibilities. It strives to provide customers with clean power. The Group has put a high regard on environmental protection work. The Group has engaged Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre to measure the level of various types of wastage discharged at each of the production plants on a monthly basis after the listing. The Group has also engaged MWH Environmental Engineering (Shanghai) Company Limited, an independent international environmental consulting company, to perform an annual environmental assessment at the Group's main production plants. Since the production facilities are mainly located at the local industrial parks, a series of monthly review and annual assessment concluded that the Group has complied with the relevant environmental standards in China.

In respect of brand building, the Group has established strong brand awareness and its brand is widely recognised by the community. Please refer to the "Award" section on pages 23 for more details.

In respect of internal control, with an aim to improve its internal control systems, the Group has engaged an associate of an international accounting firm, Baker Tilly Hong Kong Risk Assurance Limited, to review its internal control system operating in the year ended 31 December 2012. The review has covered all material controls including financial, operational and compliance controls and risk management functions. The Group also conducted regular review of its internal control system and its effectiveness to ensure that the interest of the Shareholders is safeguarded.

To enhance communication with investors, the Group has appointed Strategic Financial Relations (China) Limited ("SPRG") as our adviser in Hong Kong in relation to the investors and media relations. SPRG is the largest independent public relations network in Hong Kong and Asia Pacific. SPRG received the "Asia Pacific Network of the Year" by Campaign Asia-Pacific PR Awards 2010 in 2010, and "Local Hero of the Public Relations Agency of the Year" and "Local Hero of the Media Relations Agency of the Year" by Marketing Magazine from 2010 to 2012.

In addition to arranging investors and analysts for site visits and attending luncheons and conferences, the management of the Group also took an initiative to meet investors by arranging roadshows through various channels. The roadshows provided excellent opportunities for the management of the Group to communicate with worldwide investors and meet fund managers and analysts to introduce the strategies and future development of the Group. The Group believes that regular communication with investors is extremely important.

FUTURE PROSPECTS

In order to seize the opportunities brought by the national policy of energy saving, the Group will allocate more resources to storage battery products for wind and solar power, lead-acid, nickel hydride and lithium motive battery products applicable to pure electric cars. Foreseeing the great demand for energy saving products, the Group is confident that these products will become its future revenue growth driver.

OPERATING RESULTS

Turnover

The Group's turnover increased from approximately RMB5,438.32 million for the year ended 31 December 2011 to approximately RMB9,887.64 million for the year ended 31 December 2012, representing an increase of approximately 81.81% as compared to the previous year, which was mainly due to the strong demand for motive batteries for electric bike. The turnover of the motive battery for electric car was RMB393.48 million, representing an increase of 42.34% as compared with previous year. The Group expects that the demand for such products will keep growing.

Gross profit

The Group's gross profit increased by approximately 29.27% from approximately RMB1,435.12 million for the year ended 31 December 2011 to approximately RMB1,855.14 million for the year ended 31 December 2012. Gross profit margin decreased from approximately 26.39% for the year ended 31 December 2011 to approximately 18.76% for the year ended 31 December 2012. Such decrease was mainly due to the decrease in average selling price and the increase in unit production cost arising from increase in OEM production.

Other income

Other income of the Group increased by approximately 42.69% from approximately RMB91.01 million for the year ended 31 December 2011 to approximately RMB129.85 million for the year ended 31 December 2012. The increase was mainly attributable to the increase in subsidy income and interest income.

Selling and distribution costs

Selling and distribution costs increased by approximately 51.80% from approximately RMB164.87 million for the year ended 31 December 2011 to approximately RMB250.26 million for the year ended 31 December 2012. Such increase was mainly due to the increase in sales volume.

Administrative expenses

Administrative expenses increased by approximately 52.80% from approximately RMB197.94 million for the year ended 31 December 2011 to approximately RMB302.45 million for the year ended 31 December 2012. Such increase was mainly due to the increase in staff cost, depreciation, amortization and industrial events organization expenses.

Finance costs

Finance costs increased by approximately 55.28% from approximately RMB78.82 million for the year ended 31 December 2011 to approximately RMB122.39 million for the year ended 31 December 2012. Such increase was mainly due to the increase in average balance of bank borrowings.

Taxation

The enterprise income tax of the Group amounted to approximately RMB203.12 million for the year ended 31 December 2012, representing an decrease of approximately 4.95% from approximately RMB213.70 million for the year ended 31 December 2011. Such decrease was due to individual subsidiaries starting to enjoy favourable tax rate during the year and adjustment to the over-provision in prior years.

Gross margin analysis of first and second half of year 2012

The gross profit margin of the Group decreased from 22.98% in the first half of year 2012 to 16.10% in the second half year 2012, representing a decrease of 6.88 percentage point. It was mainly due to the decrease in average selling price and the increase in unit production cost arising from increase in OEM production.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash used in investing activities mainly consisted of capital expenditure for the purchase of property, plant and equipment.

The net cash from operating activities amounted to approximately negative RMB172.14 million for the year ended 31 December 2012 (2011: RMB412.19 million). The decrease was mainly due to the expansion of the scale of inventories, bills and trade receivables and other receivables.

As at 31 December 2012, the bank balances and cash (including time deposit and the pledged bank deposits) of the Group was approximately RMB1,093.97 million (31 December 2011: approximately RMB1,028.99 million). As at 31 December 2012, the Group obtained undrawn banks facilities of approximately RMB1,300.28 million (31 December 2011: approximately RMB1,068.00 million). The amount RMB1,005.68 million, RMB86.60 million and RMB1.69 million of bank balances and cash (including time deposit and the pledged bank deposits) are denominated in Renminbi, Hong Kong Dollars and US Dollars respectively. As the bank balances in Hong Kong Dollars could be used for the repayment of Hong Kong Dollars bank borrowings, the Company is able to control the level of currency risk.

As at 31 December 2012, the held-for-trading investments of the Group was RMB46.99 million (31 December 2011: RMB34.61 million). The objectives of this investment were to efficiently use the working capital of the Group and to capture good chance of investment. The investment mainly focused on the battery related Hong Kong listed companies. The investment was in line with the Company's treasury policy.

As at 31 December 2012, the net current assets of the Group was approximately RMB504.41 million (31 December 2011: approximately RMB752.94 million). Based on the growing operating results and the sufficient level of cash and bank balances, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2012, the bank borrowings and loan notes (together as "**interest bearing loans**") of the Group with maturity of within one year amounted to approximately RMB2,757.80 million (At 31 December 2011: approximately RMB1,470.39 million). The interest bearing loans of the Group with maturity of more than one year was 148.59 (At 31 December 2011: nil). The amounts of RMB2,748.26 million and RMB158.13 million interest bearing loans are denominated in Renminbi and Hong Kong Dollars respectively, and carry fixed and variable interest rates ranging from 3.59% to 7.60% (2011: 3.75% to 8.20%) per annum. The Company will closely monitor the changes in interest rate and assess the interest rate risk.

The objective of the Company's financial policy is to maintain an optimal capital structure to minimize the capital cost through prudent financial management. During the period under review, the Group started to make use of long-term loan in order to optimize its loan structure.

FINANCIAL POSITION

Assets

As at 31 December 2012, the total assets of the Group was approximately RMB7,445.21 million, representing an increase of 55.66% as compared to approximately RMB4,782.85 million as at 31 December 2011. Among them, non-current assets increased by approximately 57.70% to approximately RMB2,784.42 million and current assets increased by approximately 54.47% to approximately RMB4,660.79 million. The major reason for the increase of non-current assets was due to continuous capital expenditure on production plants. The increase in current assets was mainly attributable to the increase in inventories and bill and accounts receivables.

Liabilities

As at 31 December 2012, the total liabilities of the Group was approximately RMB4,322.87 million, representing an increase of approximately 89.40% from approximately RMB2,282.38 million as at 31 December 2011. Among them, current liabilities increased by approximately 83.56% to approximately RMB4,156.38 million. The increase was mainly due to the increase in accounts payables, short-term loan notes and short-term bank borrowings. Non-current liabilities increased from RMB18.06 million to approximately RMB166.49 million as at 31 December 2012. The increase was mainly due to the increase in long-term interest bearing loans.

Major financial position ratio

	2012	2011
Current ratio	**1.1**	1.3
Quick ratio	**0.7**	0.8
Interest cover	**8.5**	11.5

Both current ratio and quick ratio decreased when compared to the beginning of the year, which were mainly due to the increase in short-term interest bearing loans. The interest cover ratio reduction to 8.5 was also mainly due to the increase in interest bearing loans.

CAPITAL EXPENDITURE

The capital expenditure as at 31 December 2012 was approximately RMB1,075.39 million (At 31 December 2011: approximately RMB703.02 million). A majority of expenditure was incurred on the construction of Changxing Wushan base, the expansion of Jiangsu Shuyang base and the acquisition of 3 projects.

CAPITAL COMMITMENTS

The amount contracted for but not stated in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2012 was approximately RMB369.53 million (At 31 December 2011: approximately RMB341.43 million).

GEARING RATIO

The Group's gearing ratio as at 31 December 2012 (which is based on the amount of total interest bearing loans divided by total assets multiplied by 100%) was approximately 39.04% (At 31 December 2011: approximately 30.74%).

EXPOSURE IN EXCHANGE RATE FLUCTUATION

As the Group's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the Board is of the view that the Group's operating cash flow and liquidity is not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when appropriate.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2012 (At 31 December 2011: nil).

PLEDGE OF ASSETS

As at 31 December 2012, the bank facilities of the Group are secured by bank deposits, bills receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to RMB731.60 million (At 31 December 2011: RMB333.08 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed a total of 18,422 employees (31 December 2011: 13,420 employees). Staff costs excluding directors' emoluments of the Group for the year of 2012 amounted to RMB726.78 million (2011: RMB449.66 million). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme (including the schemes required by the governments such as pension insurance in China and mandatory pension fund in Hong Kong), unemployment insurance plan and share options scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) to encourage employee performance and a range of training programs for the development of its staff.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2012 (31 December 2011: nil).

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2012, the Group acquired 100%, 70% and 51% of the equity interest in Zhejiang Hercules, Anhui Zhongneng and Jiyuan Wanyang respectively. Details of the acquisitions are set out in note 34 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Save as disclosed in notes 32 and 33 to the consolidated financial statements, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 May 2013 to 18 May 2013, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company this year, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 10 May 2013.

The Register of Members of the Company will also be closed from 24 May 2013 to 27 May 2013, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 23 May 2013.

Awards

FIRST IN TOP 10 CHINA LIGHT INDUSTRIAL BATTERY ENTERPRISES INFORMATION TECHNOLOGY PROMOTION

In May 2012, the Company's subsidiary was honored the "First in top 10 China Light Industrial Battery Enterprises" by the China Battery Industry Association and the China National Light Industry Council.

MODEL ENTERPRISE OF SEANILESS INTEGRATION OF NATIONAL LIGHT INDUSTRY INFORMATIZATION AND INDUSTRIALIZATION

In September 2012, the Company's subsidiary was honored the "Model Enterprise of Seaniless Integration of National Light Industry Informatization and Industrialization" by the China National Light INdustry Council.

2012 INNOVATION BRAND AND OUTSTANDING ENTERPRISE AWARD

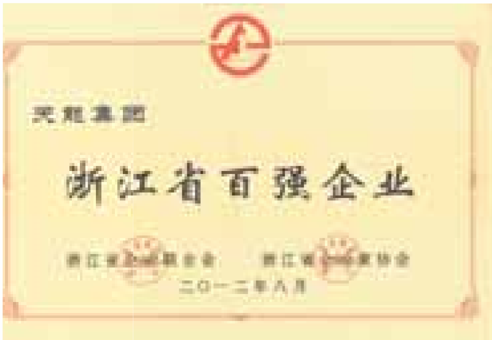
In September 2012, the Company's subsidiary was granted "2012 Innovation Brand and Outstanding Enterprise Award" by the Technological Innovation and Brand Magazine.

ZHEJIANG RETIRED MANAGEMENT MODEL ENTERPRISE

In April 2012, the Company's subsidiary was honored the "Zhejiang Retired Management Model Enterprise" by the Economic and Information Commission of Zhejiang Province.

2012 TOP 100 ENTERPRISE OF ZHEJIANG PROVINCE

In August 2012, the Company's subsidiary was honored the "2012 Top 100 Enterprise of Zhejiang Province" by Zheijang Federation Enterprises and Zhejiang Entrepreneurs Association.



2012 TOP 30 ELECTRONIC INFORMATION MANUFACTURING ENTERPRISE OF ZHEJIANG PROVINCE

In March 2012, the Company's subsidiary was honored the "2012 Top 30 Electronic Information Manufacturing Enterprise of Zhejiang Province" by the Economic and Information Commission of Zhejiang Province.

STATE-LEVEL ENTERPRISE TECHNOLOGY CENTRE

In November 2012, the Company's subsidiary was honored the "State-Level Enterprise Technology Centre" by the National Development and Reform Commission, Ministry of Science and Technology, Ministry of Finance, General Administration of Customs and State Administration of Taxation.

NATIONAL HIGH-TECH ENTERPRISES

In May 2012, the "energy-efficient rare earths sililon motive storage battery" of developed by the Company's subsidiary was honored the "National Key New Product" by Ministry of Science and technology, Ministry of Environmental Protection, Ministry of Commerce and General Adminsitration of Quality Supervision, Inspection and Quavantine.

Corporate Governance Report

The Company is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "**Code**") during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). For the year ended 31 December 2012, except for the code provision A.2.1 the Company has complied with the provisions set out in the Code. Mr. Zhang Tianren is both the Chairman and CEO of the Company who is responsible for managing the Group's business. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. With the present board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of the Chairman and CEO is necessary.

BOARD OF DIRECTORS

Composition

As at 31 December 2012, the Board comprised nine members. Mr. Zhang Tianren is the Chairman of the Board. The executive directors of the Company are Mr. Zhang Aogen, Mr. Chen Minru, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Yang Lianming. In compliance with Rule 3.10 of the Listing Rules, the Company had three independent non-executive directors comprising of one-third of the members of the Board, namely, Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong. Mr. Huang Dongliang has appropriate professional accounting experience and expertise.

All directors of the Company (the "**Directors**" and each of the Directors (the "**Director**")) have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 41 to 44 of this annual report.

Each independent non-executive Director has pursuant to the Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

Apart from Mr. Zhang Aogen being an elder brother of Mr. Zhang Tianren, the Chairman of the Board, there is no other relationship (including financial, business, family or other material relationship) among members of the Board. All of them are able to make free independent judgment.

Function

The Board, led by the Chairman, is responsible for formulation and approval of the Group's development, business strategies and policies, approval of business plans, recommendation of dividend and supervision of management. While the management of the Company was given sufficiently autonomy by the Board to handle the daily ordinary course of administration and management, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

There is a formal schedule of matters specifically reserved to and delegated by the Board. The Board had given clear directions to the Management that certain matters (including the following) must be reserved to the Board:

– Publication of final, interim and quarterly results (if any) of the Company;

– Dividend distribution or other distributions;

– Treasury policy, accounting policy and remuneration policy;

– Review on internal control system and risk management;

– Changes to major group corporate structure or Board composition requiring notification by announcement;

– Notifiable transaction and non-exempted connected transaction/continuing connected transaction;

– Proposed transaction requiring Shareholders' approval;

– Capital re-structuring and issue of new securities;

– Joint-venture with outside party involving capital commitment from the Group of over 5% of the relevant size test of the Company; and

– Financial assistance to Directors.

In addition, the Board carries the function of reviewing the corporate governance practice and disclosure system as follow:

– Develop and review the Company's policies and practices on corporate governance;

– Review and monitor the training and continuous professional development of directors and senior management;

– Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– Develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

– Review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Company held eight Board meetings and one general meeting during the year ended 31 December 2012. The attendance of individual Directors at these meetings were as follows:

Name	Attendance of Board meeting	Attendance of general meeting
Executive Directors		
Mr. Zhang Tianren	8/8	1/1
Mr. Zhang Aogen	6/8	1/1
Mr. Chen Minru	8/8	1/1
Mr. Zhang Kaihong	6/8	0/1
Mr. Shi Borong	6/8	1/1
Mr. Yang Lianming	6/8	1/1
Independent Non-executive Directors		
Mr. Ho Tso Hsiu	5/8	1/1
Mr. Huang Dongliang	6/8	1/1
Mr. Wang Jingzhong	6/8	1/1

The term of appointment of the non-executive directors is as follows:

Mr. Ho Tso Hsiu	11 June 2012 to 10 June 2013
Mr. Huang Dongliang	11 June 2012 to 10 June 2013
Mr. Wang Jingzhong	11 June 2012 to 10 June 2013

The Company has taken out appropriate insurance cover for the Directors in respect of legal actions taken against Directors and officers. The Board reviews the extent of the insurance cover every year.

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and the Shareholders. Their responsibilities include:

– holding regular board meetings focusing on business strategy, operational issues and financial performance;

– monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

– monitoring and managing the potential conflicts of interest of management, board members and Shareholders, including misuse of corporate assets and abuse in connected transaction; and

– ensuring processes are in place to maintain the overall integrity of the Company, including financial statements and internal control systems.

Directors' Training

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

For the period from 1 January 2012 to 31 December 2012, all Directors provided their records of training to the Company. All Directors, namely Mr. Zhang Tianren, Mr. Zhang Aogen, Mr. Chen Minru, Mr. Zhang Kaihong, Mr. Shi Borong, Mr. Yang Lianming, Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong, participated in this continuous professional development mainly by reading various materials regarding directors' responsibilities, prevention of breaching listing rules and disclosure of inside information, etc.

Company Secretary's Training

Pursuant to new Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided her training records to the Company indicating more than 15 hours of relevant professional development by means of attending in-house briefings, attending seminars and reading relevant guideline materials.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders as required to be disclosed pursuant to the Code.

Convening an extraordinary general meeting and procedures for putting forward proposals by shareholders at general meeting

Each general meeting other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.

According to Article No.58 of the Company's Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board of the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business in Hong Kong of the Company marked with the attention of the Company Secretary. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

Enquiries from shareholders to the Board

In order to ensure effective communication between the shareholders and the Board, the Company adopted the shareholders communication procedures on 24 February 2012. According to the shareholders communication procedures, the board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation. The chairman of the board should attend the annual general meeting. He should also invite the independent non-executive directors, chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, the chairman should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval.

Shareholders and investors are welcome to visit the Company's website and raise enquiries through our Investor Relations Department and/or our Company's PR representative (Strategic Financial Relations (China) Limited) whose contact details are available on the website.

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2012, the Remuneration Committee had three members, comprising Mr. Wang Jingzhong and Mr. Huang Dongliang (independent non-executive Directors) and Mr. Chen Minru (executive Director).

To comply with the new Code provisions ("CPs") B.1.1 to B.1.4, Mr. Wang Jinzhong was appointed as the chairman of the Remuneration Committee in place of Mr. Chen Minru ("Mr. Chen") and Mr. Chen remained as a member of the Remuneration Committee with effect from 24 February 2012.

The terms of reference of the Remuneration Committee follow the guidelines set out in the Code and it is mainly responsible for making recommendations to the Board on the Company's policy for the remuneration of Directors and senior management.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2012 to approve and adopt the revised terms of reference of the Remuneration Committee. The attendance of each member is set out as follows:

Name	meeting held	meeting attended
Mr. Wang Jingzhong	1	1
Mr. Huang Dongliang	1	1
Mr. Chen Minru	1	1

The remuneration package granted to the Directors was not amended during the year ended 31 December 2012. No remuneration proposal was proposed to the Board of Directors for approval.

NOMINATION OF DIRECTORS

The Company has established a Nomination Committee with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2012, the Nomination Committee had three members, comprising Mr. Zhang Tianren (executive Director), Mr. Huang Dongliang and Mr. Wang Jingzhong (independent non-executive Directors).

To comply with the new CPs A.5.1 to A.5.5, Mr. Zhang Tianren was appointed as the chairman and member of the Nomination Committee in place of Mr. Zhang Aogen ("Mr. Zhang") and Mr. Zhang resigned as a member of the Nomination Committee with effect from 24 February 2012.

The terms of reference of the Nomination Committee have been determined with reference to the Code. The Nomination Committee is responsible for identifying potential new directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by Shareholders at the first annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Basically, the nomination procedure follows the articles of association of the Company. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

The Nomination Committee shall meet at least once a year. One committee meeting was held in 2012 to approve and adopt the revised terms of reference of the Nomination Committee. The attendance of each member is set out as follows:

Name	meeting held	meeting attended
Mr. Zhang Tianren	1	1
Mr. Huang Dongliang	1	1
Mr. Wang Jingzhong	1	1

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rule. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the year of 2012.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with the Rule 3.21 of the Listing Rules. As at 31 December 2012, the Company's Audit Committee comprised three independent non-executive Directors, namely Mr. Huang Dongliang (chairman), Mr. Ho Tso Hsiu and Mr. Wang Jingzhong.

The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's independent external auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the annual report with the management and the Company's independent external auditors and recommended its adoption by the Board.

A written terms of reference, which describes the authority and duties of the Audit Committee, are regularly reviewed and updated by the Board to comply with CP C.3.3. The Audit Committee held three meetings during the year ended 31 December 2012. The attendance of each member is set out as follows:

Name	meetings held	meetings attended
Mr. Huang Dongliang	3	3
Mr. Ho Tso Hsiu	3	2
Mr. Wang Jingzhong	3	3

The Audit Committee oversees the financial reporting process. In this process, the management of the Company is responsible for the preparation of Group's financial statement including the selection of suitable accounting policies. Independent external auditors are responsible for auditing and attesting to Group's financial statement and evaluating the Group's system of internal controls. The Audit Committee oversees the respective works of the management and the independent external auditors to monitor the processes and safeguards employed by them. The Audit Committee reports to the Board on its findings after each of its meeting.

The Audit Committee reviewed and discussed with the management and independent external auditors the Group's financial statement for the year ended 31 December 2012. The Audit Committee also received reports and met with the external independent auditors to discuss the general scope of their audit work and their assessment of Group internal controls.

Based on these reviews and discussions and the report of the external independent auditors, the Audit Committee recommended for the Board's approval of the consolidated financial statements for the year ended 31 December 2012, with the Auditors' Report thereon.

The Audit Committee recommended to the Board that the Shareholders be asked to re-appoint Deloitte Touche Tohmatsu ("**Deloitte**") as the Group's independent external auditor for the year ending 31 December 2013.

COMPLIANCE ADVISER

To better perform the responsibility set out in Listing Rule, the Company engaged Kingsway Capital Limited as its compliance adviser. The term of service effective from 7 March 2012 to the issue date of this annual report.

INDEPENDENT EXTERNAL AUDITOR

The Audit Committee reviews each year a letter from the independent external auditor of the Company, Deloitte, confirming their independence, approves their appointment, discusses the scope of their audit and approves their fees.

Deloitte has provided annual statutory audit services in respect of the Company's financial statements prepared under HKFRSs for the year 2012. Deloitte has also reviewed the 2012 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2012, the fee paid and payable to Deloitte in respect of audit and audited related services amounted to approximately RMB1.60 million. In respect of non-audit services, the fees paid and payable to Deloitte relating to review on interim financial report amounted to approximately RMB0.50 million.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls within the Company and reviewing their effectiveness at least annually, covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Board is committed to strengthening the Company's internal control system, and has established a series of internal control policies and procedures. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems.

The Company engaged an international professional management consultancy firm, Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly"), to assess and evaluate the risk and effectiveness of its system of internal controls up to 31 December 2012. The Audit Committee members, together with the senior management, have reviewed, considered and discussed all the findings and recommendations of the internal control review relating to the internal control system that operates within the Company, and the Audit Committee is satisfied that the internal control system of the Company is sound and adequate. Pursuant to the system improvement recommendations made by Baker Tilly, the Company will continue to improve its internal management and control systems.

The Board has also conducted an annual review on the effectiveness of the accounting and financial reporting function of the Company and takes the view that the Company possesses adequate resources and its staff are equipped with suitable qualifications and experience in this regard.

The Company will conduct regular reviews of the Company's internal control system and its effectiveness to ensure the interest of the Shareholders is safeguarded.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

COMMUNICATION WITH SHAREHOLDERS

The objective of shareholder communication is to provide the Shareholders with detailed information about the Company so that they can exercise their rights as the Shareholders in an informed manner. The Company uses a range of communication tools to ensure the Shareholders are kept well informed. These include general meeting, annual report, various notices, announcements and circulars. Procedure for demanding voting by poll has been included in all circulars accompanying notice convening general meeting and the detailed procedures for conducting a poll has been read out by the Chairman at general meeting. The general meeting provides with the Shareholders a useful forum and encourages the Shareholders to attend the general meetings of the Company to raise comments and exchange views with the Board. The Chairman, Directors and independent external auditor, where appropriate, are available to answer questions at the meeting.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements. The responsibilities of the independent external auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 56 and 57.

CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents during the year ended 31 December 2012.

Environmental Protection

The Company takes environmental protection seriously and is committed to ensure that the environment and the community will not be compromised in the course of the Company's production and expansion. The Company has adopted a series of environmental protection policies and utilised modern equipment to control and monitor the waste level on a regular basis. The Company also complies to the regulatory requirements on environmental protection.

The Company is subject to the national and local environmental laws and regulations in China on environmental matters, such as the discharge of waste water, exhaust fumes and solid waste. The main pollutants generated by the Company are lead dust or particles and waste water which contain lead and sulphuric acid.

The Company has engaged MWH Environmental Engineering (Shanghai) Co., Ltd. ("**MWH**"), an independent international environment consulting company, to perform an environmental assessment to evaluate the environmental performance and compliance status of all existing operation.

According to the report issued by MWH dated 7 March 2013, a review of the monitoring data for the Tianneng Power sites indicates that no additional corrective actions would be required for the twelve sites with respect to the status of their environmental discharges to the environment in light of the relevant applicable international environmental standards.

CONTINUING CONNECTED TRANSACTIONS

Significant related party transactions entered into the Group for the year ended 31 December 2012 are disclosed in Note 38 to the consolidated financial statements. The said related party transactions constitute continuing connected transactions under the Listing Rules. The Board has approved and the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions set out in page 36 to page 40 below have been entered into:

a) in the usual and ordinary course of businesses of the Group;

b) on normal commercial terms; and

c) in accordance with the relevant written agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Board engaged the auditor of the Company to perform works on the continuing connected transactions set out below in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their works to the Board.

Details of the non-exempt continuing connected transactions are as follows:

1. *Product sales procurement agreements (**產銷承包協議**) with sales representatives and for the primary market (the "**Procurement Agreements**")*

Background

The Group has engaged various sales representatives (the "**Sales Representatives**") for the sales of the Company's products to manufacturers of electric bikes (the "**Primary Market**"). The Company has entered into a Procurement Agreement with each of the Sales Representatives in December 2009. The Procurement Agreements expired on 31 December 2012. The Group entered into new procurement agreements with the then connected sales representatives on 4 December 2012 to renew the relevant transactions for a term of three years ending 31 December 2015.

All of the Procurement Agreements were for a term of approximately three years ended on 31 December 2012. Some of the Sales Representatives (the "**Connected Sales Representatives**") were associates of the Directors and hence our connected persons for the purposes of the Listing Rules. A list of the Connected Sales Representatives in relation to which the relevant Procurement Agreements in force during the year 2012 is set out below:

Name of the Connected Sale Representatives	**Name of related Directors**	**Relationship**
1. SHE Guoqing (佘國清)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's husband
2. CHEN Qinfeng (陳勤峰)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Nephew
3. ZHANG Zhiming (張志明)	ZHANG Kaihong (張開紅)	Nephew
4. WANG Jindi (王金娣)	ZHANG Aogen (張敖根)	Sister-in-law
5. DU Peiqiang (杜培強)	ZHANG Aogen (張敖根)	Nephew
6. WU Fuhua (吳富華)	ZHANG Kaihong (張開紅)	Cousin
7. CHEN Zhijie (陳志杰)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Nephew
8. CHEN Zhiming (陳志明)	YANG Lianming (楊連明)	Brother-in-law
9. CHEN Ying (陳英)	ZHANG Tianren (張天任), ZHANG Aogen(張敖根)	Cousin
10. DU Yueping (杜月萍)	ZHANG Aogen (張敖根)	Nephew

Reasons for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Sales Representatives joining our business.

The Connected Sales Representatives primarily represented Tianneng Battery in negotiating sales transactions, coordinating the delivery of products, taking responsibility of the settlement of sales and at the same time receiving commission, and Tianneng Battery established direct relationship with the customers. During the course of their engagement and from their own development, these Connected Sales Representatives have established networks and business relationships with manufacturers in our Primary Market.

It is our strategy to adopt the business model of engaging Sales Representatives to develop our business and enhance the sale of our products in the Primary Market. As at 31 December 2012, there were a total 25 (2011:20) Sales Representatives, out of which 10 (2011: 12) were Connected Sales Representatives. As these Connected Sales Representatives have been working with us, their long-standing experience in and understanding of our products, corporate culture and business development is important to us for our business development. However, we do not rely on these Connected Sales Representatives since all sales orders referred by these Connected Sales Representatives were ultimately placed by and invoices were issued to the customers directly.

Pricing basis and policy

Commission of the Connected Sales Representatives was calculated based on the difference between the Group's uniform ex-factory prices and the selling prices of the Group's products. Pursuant to the New Procurement Agreement, each of the Connected Sales Representatives has agreed to guarantee the payment obligation of the customers procured by them. The pricing basis and policy was comparable to those offered to independent sales representatives of the Group.

Payment terms

Commission of the Connected Sales Representatives was computed and paid monthly in general. The payment terms were comparable to those offered to independent sales representatives of the Group.

Annual cap

The annual cap for the year 2012 in respect of the Procurement Agreements with the Connected Sales Representative was RMB23 million (2011: RMB16 million).

Actual transaction value during the year

The total commissions amount under the Procurement Agreements during the year ended 31 December 2012 was RMB8,657,000 (2011: RMB9,223,000).

2. *Engagement of exclusive distributors for sales to dealers for the secondary market (the "**Distribution Agreements**")*

Background

We have engaged various exclusive distributors (the "**Exclusive Distributors**") for sale of lead-acid motive battery products to dealers or repairing shops of electric bikes which then re-sell the same as replacements in the retail market in China (the "**Secondary Market**"). The Group entered into a Distribution Agreement with each of the Connected Exclusive Distributors in December 2009. The Distribution Agreements expired on 31 December 2012. The Group entered into new distribution agreements with the then connected exclusive distributors on 4 December 2012 to allow the then connected exclusive distributors to purchase products from the Group at the Group's uniform ex-factory prices and then re-sell those products to customers and to provide after-sales services for a term of three years ending 31 December 2015.

Certain Exclusive Distributors are associates of our Directors and hence our connected persons for the purposes of the Listing Rules (the "**Connected Exclusive Distributors**"). A list of the Connected Exclusive Distributors is set out below:

Name of the Connected Sale Representatives	Name of related Directors	Relationship
1. CHEN Lingling (陳玲玲)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin
2. CHEN Huichi (陳會池)	YANG Lianming (楊連明)	Brother-in-law
3. YANG Lianzhen (楊連成)	YANG Lianming (楊連明)	Brother
4. SHE Boxing (佘伯興)	SHI Borong (史伯榮)	Son-in-law
5. DU Peiming (杜培明)	ZHANG Aogen (張敖根)	Nephew
6. ZHANG Jinfeng (張金豐)	ZHANG Kaihong (張開紅)	Son
7. ZHANG Kaiming (張開明)	ZHANG Kaihong (張開紅)	Cousin
8. CHEN Chunhua (陳春華)	ZHANG Kaihong (張開紅)	Brother-in-law

Reasons for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Exclusive Distributors joining the business.

The Connected Exclusive Distributors are primarily authorised by Tianneng Battery to sell products within a specified region. However, the demand for products in the particular region does not depend on the Connected Exclusive Distributors. During the course of their engagement and from their own development, these Connected Exclusive Distributors have established networks and business relationships with dealers and shops in our Secondary Market.

It is the Company's strategy to continue engaging Exclusive Distributors to further expand the Secondary Market of batteries for electric bikes. As at 31 December 2012, there were a total 1,314 (2011: 952) Exclusive Distributors, out of which 8 (2011: 10) were Connected Exclusive Distributors. As these Connected Exclusive Distributors have been working with us for long time, their long-standing experience in and understanding of our products, corporate culture and business development is important for our business development. However, we do not rely on these Connected Exclusive Distributors.

Pricing basis and policy

The Connected Exclusive Distributors purchase products from the Group at the Group's uniform ex-factory price plus uniform fixed delivery fee for reselling. The pricing basis and policy was similar with those offered to independent Exclusive Distributors of the Group.

Our Company has entered into a contract (the "After Sale Contract") with each of the Exclusive Distributors in December 2009 for a term of approximately three years ended on 31 December 2012 for the purposes of supporting them in their role as distributors to provide after sale services to customers. All the Exclusive Distributors also received a fixed amount of monthly subsidy from us as a remuneration of their after sale services provided to customers. The principal terms and conditions of all the After Sale Contracts, including the amount of subsidies and the aforesaid pricing and commission policy, were identical, no matter whether they were connected or non-connected Exclusive Distributors.

Payment terms

Full payment was made in advance by cash or bank draft by the Connected Exclusive Distributors. Payment terms offered to the Connected Exclusive Distributors were comparable to those offered to the independent exclusive distributors of the Group.

Annual cap

The annual cap for the year 2012 in respect of the Distribution agreements with the Connected Exclusive Distributors was RMB100 million (2011: RMB70 million).

Actual transaction value during the year

The total purchase amount under the agreements with the Connected Exclusive Distributors during the year ended 31 December 2012 was RMB99,414,000 (2011: RMB56,172,000).

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. ZHANG Tianren (張天任), aged 50, is the chairman of our Board, president and founder of our Group. Mr. ZHANG is responsible for our overall management and formulation of our business strategies. Mr. ZHANG has had 26 years of experience in technological research and development and management of rechargeable battery industry in China. Mr. ZHANG was the factory manager of Zhejiang Changxing Storage Battery Factory during the period between 1989 and 2002, and has been the chairman and the general manager of Tianneng Battery since 2003. In April 2002, Mr. ZHANG was qualified as a senior economist and an engineer.

In addition to his key position in our Group, Mr. ZHANG has held various roles in the energy, battery and other related industries in China. Mr. ZHANG is currently a vice chairman of the Asian Photovoltaic Industry Association, a vice council chairman of the China Energy Association, vice council chairman of China Battery Industry Association, vice council chairman of China Electrical Equipment Industrial Association, vice council chairman of Chinese Cycling Association, the chairman of the Rechargeable Battery Industry Association in Zhejiang Province, the chairman of Zhejiang Merchants Association and a Representative of Zhejiang Province People's Congress. Mr. ZHANG has been awarded the 2012 Ernst & Young Entrepreneur of the Year and was elected as a member of the 12th National People's Congress. Mr. ZHANG has also been named in 2001 as one of the township entrepreneurs in China (全國鄉鎮企業家) and has been awarded as one of the World Outstanding Chinese at 11th World Outstanding Chinese Award, 1st New Technological Merchants in Zhejiang, 2009 Outstanding Zhejiang Merchants, Top Ten Influential Persons of the PRC Electric Appliance Industry 2009 and 2012 Bauhinia Cup Outstanding Entrepreneur. Mr. ZHANG is the younger brother of Mr. ZHANG Aogen.

Mr. ZHANG Aogen (張敖根), aged 55, is our executive Director and vice-president and is responsible for our customer relationship and management, the formulation of sales strategies and procurement management. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory as a deputy factory manager in 1988 and was appointed as a deputy general manager of Tianneng Battery in 2003. Mr. ZHANG attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. Mr. ZHANG is a senior economist and has had 26 years of management experience in sales of rechargeable battery products. Mr. ZHANG is also an elder brother of Mr. ZHANG Tianren, chairman of our Board.

Mr. CHEN Minru (陳敏如), aged 53, is our executive Director and Standing vice president and is responsible for our capital market, financial market, corporate management and information technology management. Mr. CHEN joined us as a deputy general manager of Tianneng Battery in February 2003. Mr. CHEN graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management. He also attended the senior seminar of modern management (CFO) in Zhejiang University of Finance & Economics from April 2006 to May 2007, the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and the senior seminar of investment and finance in Shanghai University of Finance and Economics from March 2009 to March 2010. Mr. CHEN is an qualified accountant, a senior economist and an affiliated member of the Association of International Accountants. He has 34 years of experience in corporate management and financial management. Prior to joining us, Mr. CHEN was the deputy general manager of Zhejiang Huzhou Bianshan Building Materials Group Corporation (湖州弁山建材集團公司) and Huzhou Kingsafe Group Co., Ltd. (湖州金三發集團).

Mr. SHI Borong (史伯榮), aged 59, is our executive Director and vice-president and is responsible for our production management, quality management and production technology. Mr. SHI joined Zhejiang Changxing Storage Battery Factory in 1989 and acted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1990 and as deputy general manager of Tianneng Battery in 2003 and appointed as the deputy general manager of Tianneng Battery in 2010. In March 2012, Mr SHI was appointed as chief executive of Tianneng Wushan Cycle Economic Development Zone. Mr. SHI attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. SHI is a senior economist and has had 23 years of management experience in rechargeable battery enterprises.

Mr. ZHANG Kaihong (張開紅), aged 55, is our executive Director and is responsible for the management of product quality assurance. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory in 1988 and acted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1992. Mr. ZHANG was also appointed as deputy general manager of Tianneng Battery in 2003 and as general manager of Tianneng Wuhu in 2006. From March 2012, Mr. ZHANG is fully responsible for the management of product quality assurance of the Group. Mr. ZHANG attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. ZHANG is a senior engineer with 26 years' experience in research and development, quality control and management of rechargeable battery enterprises.

Mr. YANG Lianming (楊連明), aged 50, is our executive Director and assists in the production of Tianneng Battery and Tianneng Power Supply. Mr. YANG joined Zhejiang Changxing Storage Battery Factory as an assistant officer in 1995, and acted as an administrative officer of Tianneng Battery in 1999. Mr. YANG was appointed as the deputy general manager of Tianneng Power Supply in 2003 and the assistant to general manager of Tianneng Battery in 2005. Mr. YANG attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. Mr. YANG is a senior economist and had 19 years of management experience in rechargeable battery enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Tso Hsiu (何祚庥), aged 85, was appointed as an independent non-executive Director in February 2007. Mr. HO graduated from Tsinghua University in 1951 with a bachelor of science degree. Mr. HO has been working as a researcher and the vice-president of Institute of Nuclear Research, Institute of High Energy Physics and Institute of Theoretical Physics of Chinese Academy of Sciences since 1956. Mr. HO has been a member of Chinese Academy of Sciences since 1993.

Mr. HUANG Dongliang (黃董良), aged 57, was appointed as an independent non-executive Director in February 2007. Mr. HUANG graduated from Zhongnan Finance University in 1988 with a bachelor degree majored in economics. Mr. HUANG has been the assistant to principal of Zhejiang College of Finance and Economics since 2004. Mr. HUANG obtained the qualifications of professor, senior accountant and registered tax agent in China. Mr. HUANG is a certified public accountant registered under the Chinese Institute of Certified Public Accountants. Mr. Huang is currently an independent director of Zhejiang Conba Pharmaceutical Co., Ltd. and Zhejiang Daoming Optical Chemical Co., Ltd., which are listed companies on Shanghai Stock Exchange in China.

Mr. WANG Jingzhong (王敬忠), aged 56, was appointed as an independent non-executive Director in February 2007. Mr. WANG graduated from Huadong Polytechnic University in 1982 with a bachelor degree and obtained the qualification of senior engineer. Mr. WANG is the executive vice president and secretary general of China Battery Industry Association and also the independent non-executive director of SCUD Group Limited (Stock code: 1399), a listed company in Hong Kong.

SENIOR MANAGEMENT

Mr. ZHAO Haimin (趙海敏), aged 48, is the vice-president. Mr. ZHAO is responsible for human resources and assists in market development and marketing planning. Mr. ZHAO joined us in 2004 as an assistant to our general manager. Mr. ZHAO was appointed the manager of human resources in 2005, a director of Tianneng Battery in 2006 and deputy general manager of Tianneng Battery. Mr. ZHAO graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management. Later, he attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and enrolled in the MBA programme in China University of Geosciences in 2009. Mr. ZHAO is a senior engineer and senior economist. Prior to joining us, Mr. ZHAO was an assistant to the general manager in Huzhou KINGSAFE Group Co., Ltd. (湖州金三發集團) and was responsible for the management of sales, production and procurement.

Mr. ZHOU Jianzhong (周建中), aged 42, assistant to the president. Mr. ZHOU is responsible for the management of the following companies: Tianneng Battery, Tianning Power Supply and Tianneng Energy Technology. In the meantime, Mr. ZHOU is also responsible for the business of new energy. He joined the Group in 1996 and has been the head of market management section and manager of the market development department of Tianneng Battery and assistant to the manager and deputy general manager of the Tianneng Power Supply. He was appointed as assistant to the president in 2010. Mr. ZHOU attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. He is a senior economist with 18 years' experience in the sales and management of rechargeable batteries and corporate management.

Mr. YANG Huiqiang (楊惠強), aged 38, vice president. Mr. YANG is responsible for the Group's business in Jiangsu Province. He joined the Group in 1992 as an administrative officer of Tianneng Battery and served as a manager of marketing department of Tianneng Battery, the deputy general manager of Tianneng Battery (Jiangsu) and deputy general manager of the Jiangsu management centre of Tianneng Group. From August 2007 to September 2008, Mr. YANG attended the seminar of business management for senior president in Zhejiang University. Mr. YANG is a standing committee member of Shuyang County in Jiangsu Province and a committee member of CPPCC of Suqian City in Jiangsu Province. He has been awarded "Excellent Foreign Youth Entrepreneur in Ten Aspects of Shuyang", "Honorary Citizen of Suqian City", "Model Worker of Suqian City" and one of the "Ten Special Contributors to the Economic Development of Suqian City". Mr. YANG is a nephew of Mr. Zhang Tianren.

Ms. HUI Wai Man, Shirley (許惠敏), aged 45, the company secretary. Ms. HUI is responsible for the secretarial affairs of the Group and the Company. She joined the Group in September 2009. She is a certified public accountant in Hong Kong, a fellow member of Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators as well as a fellow of Hong Kong Institute of Chartered Secretaries. Also, she is a member of Society of Chinese Accountants and Auditors and Hong Kong Securities Institute. Ms. HUI has over 23 years' professional experience in public accounting and corporate financing.

Mr. WANG Zhikun (王志坤), aged 43, the vice president. Mr. WANG is responsible for the administration and investment management. He joined the Group in 2005. He was appointed as listing office director, chief investment officer and Head of President Office. Mr WANG was promoted to vice president in 2010. Mr. WANG obtained a MBA from SOUTHERN CALIFORNIA UNIVERSITY FOR PROFESSIONAL STUDIES in America. He attended the seminar of international financing in Fudan University (Shenzhen Party School of CPC) in 1999 and attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. WANG is a senior economist with 20 years' experience in investment management. Prior to joining us, Mr. WANG worked in Century Securities (Shenzhen) Company Limited and Zhejiang Huaxin Home Textile Company Limited and was responsible for the investment management and corporate management.

Mr. LAU Siu Fai (劉兆煇), aged 43, vice president and chief representative of the Hong Kong office. Mr. LAU is responsible for the corporate finance, acquisition and merger and investor relations of the Group and is in charge of the Hong Kong office. He joined the Group in 2010. Prior to joining us, he held various managerial positions in three Hong Kong listed companies and an international accounting firm. Mr. LAU has more than19 years' managerial working experience in direct investment, project management, corporate finance and financial management. He obtained a bachelor degree in Accountancy from the City University of Hong Kong. He is also a fellow member of Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants.

Ms. WANG Jing (王靜), aged 49, financial controller. Ms. WANG is responsible for the financial management. She joined the Group in 2004 as the manager of financial department of Tianneng Battery and was appointed as chief financial officer in 2009. She has more than 32 years' financial management experience. Ms. WANG graduated from Hangzhou Dianzi University in industrial accounting in July 1988 and attended the senior seminar of modern management (CFO) in Zhejiang University of Finance & Economics from June 2008 to June 2009. Prior to joining us, Ms. WANG worked in Zhejiang Leomax Cement Company Limited (浙江三獅水泥股份有限公司), Huzhou Jinsanfa Group (湖州金三發集團) and Huzhou Tianheng United CPA Limited (湖州天衡聯合會計師事務所) and was responsible for the financial management and audit.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The Group is principally engaged in the production of motive batteries in China. The activities of principal subsidiaries are shown in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 58. The Directors recommend the payment of a final dividend of HK23.8 cents per share (equivalent to RMB19.19 cents (per share) amounting to approximately RMB210.96 million.

PROPERTY, PLANT AND EQUIPMENT

During the year, approximately RMB271.74 million and RMB228.30 million construction in progress were completed and transferred to buildings and plant and machinery, respectively. During the year, the Group continued to expand its manufacturing facilities. The Group acquired buildings, plant and machinery for approximately RMB105.67 million. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

USE OF PROCEEDS

The Company issued 300,000,000 Shares comprising 250,000,000 newly issued Shares and 50,000,000 Shares offered for sale by some of the then Shareholders for the initial public offer in June 2007 at a price of HK$1.92 per Share. The gross proceeds received by the Company amounted to about RMB471,657,000. These proceeds were applied during the year in accordance with the proposed applications set out in the prospectus of the Company dated 29 May 2007.

On 8 October, 2009, the Company entered into a placing agreement to place 110,800,000 ordinary shares of HK$0.10 each at a placing price of HK$3.50 per share to six placees, who are independent of and not connected with the Company or any of its connected persons of the Company, in order to improve the capital structure of the Group. The placing was completed on 12 October 2009. On 16 October 2009, following completion of the placing, 80,000,000 ordinary new shares of HK$3.50 per share were issued to Prime Leader Global Limited at a subscription price of HK$3.50 per price pursuant to the subscription agreement.

The gross proceeds from the subscription was HK$280.0 million (equivalent to RMB246.7 million) and the net proceeds to the Company from the Subscription was HK$272.0 million (equivalent to RMB239.7 million). The proceeds from the Subscription were used as general investment into lead recycling plant, technology upgrade at production facilities and working capital of the Company as set out in the announcement of the Company dated 8 October 2009.

The whole amount of the net proceeds was fully used up for the aforementioned purpose in the period from year 2009 to 2011.

SHARE CAPITAL

Details of the movement during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTIVE RESERVES OF THE COMPANY

At the end of the reporting date, the Company's reserve available for distribution amounted to approximately RMB944,100,000 (2011: RMB1,008,275,000). Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Chen Minru
Mr. Zhang Kaihong
Mr. Shi Borong
Mr. Yang Lianming

Independent non-executive directors:

Mr. Ho Tso Hsiu
Mr. Huang Dongliang
Mr. Wang Jingzhong

The term of appointment of the non-executive directors is as follows:

Mr. Ho Tso Hsiu	11 June 2012 to 10 June 2013
Mr. Huang Dongliang	11 June 2012 to 10 June 2013
Mr. Wang Jingzhong	11 June 2012 to 10 June 2013

In accordance with Article 87 of the Company's Articles of Association, Mr. Zhang Kaihong, Mr. Yang Lianming and Mr. Ho Tso Hsiu will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

All executive directors have entered into service agreements with the Company for a period of three years commencing 11 June 2007 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association. The service contracts of all the executive directors were expired on 10 June 2010. Thereafter, the terms of the executive directors have been renewed for a further term of one year in each year. By mutual agreement of both parties, the term of service was renewed for a further year commencing 11 June 2012.

Other than those disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the registered maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Long positions

Ordinary shares of HK$0.1 each of the Company.

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares of share options of the Company	Aggregate approximate percentage of issued share capital of the Company
Zhang Tianren	Interest of a controlled corporation (note 1)	407,093,650	–	37.03%
	Interest of spouse (note 1)	500,000	–	0.05%
Zhang Aogen	Interest of a controlled corporation (note 2)	13,641,022	–	1.24%
Chen Minru	Interest of a controlled corporation (note 3)	5,243,152	–	0.48%
Zhang Kaihong	Interest of a controlled corporation (note 4)	18,784,174	–	1.71%
Shi Borong	Interest of a controlled corporation (note 5)	15,686,141	–	1.23%
Yang Lianming	Interest of a controlled corporation (note 6)	5,159,151	–	0.47%

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(a) Long positions (Continued)

Name of director	Capacity	Number of shares held	Number of underlying shares of share options of the Company	Aggregate approximate percentage of issued share capital of the Company
Ho Tso Hsiu	Beneficial owner (note 7)	0	140,000	0.01%
Huang Dongliang	Beneficial owner (note 7)	0	140,000	0.01%
Wang Jingzhong	Beneficial owner (note 7)	0	140,000	0.01%

Notes:

1. The 407,093,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren. The interest in 500,000 shares arises from the share options granted to Ms. Yang Yaping, spouse of Mr. Zhang Tianren.
2. The 13,641,022 shares are held by Top Benefits International Limited, which is wholly-owned by Mr. Zhang Aogen.
3. The 5,243,152 shares are held by Profit Best International Limited, which is wholly-owned by Mr. Chen Minru.
4. The 18,784,174 shares are held by Plenty Gold Holdings Limited, which is wholly-owned by Mr. Zhang Kaikong.
5. the 15,686,141 shares are held by Precise Asia Global Limited, which is wholly-owned by Mr. Shi Borong.
6. The 5,159,151 shares are held by Success Zone Limited, which is wholly-owned by Mr. Yang Lianming.
7. The interest are derived from the share option granted and exercised under the share options scheme of the Company. Further details can be referred to the section "Share Options" in this report.

(b) Other interests and short positions

Saved for the disclosed above, on 22 November 2010, a total of 1,680,000 options were granted to the associates of directors in accordance with Company's share option scheme. The names of other grantees who are associates of directors were listed on the announcement dated 22 November 2010.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 37 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed on page 52, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETITORS

As at the date of this report, within the knowledge of the directors, no director and their respective associates had any interest in a business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders, had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Ordinary shares of HK$0.1 each of the Company.

Name of shareholder	**Capacity**	**Number of issued ordinary shares held**	**Approximate percentage of issued share capital of the Company**
Zhang Tianren	Interest of a controlled corporation (note 1)	407,093,650 (L)	37.03%
	Interest of spouse (note 1)	500,000 (L)	0.05%
Prime Leader Global Limited	Beneficial owner	407,093,650 (L)	37.03%
Yang Yaping	Beneficial owner (note 1)	500,000 (L)	0.05%
	Interest of spouse (note 1)	407,093,650 (L)	37.03%

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital of the Company
Deutsche Bank Aktiengesellschaft	Beneficial owner	961,343 (L) 955,901 (S)	0.09% 0.09%
	Investment manager	537,000 (L)	0.05%
	Person having a security interest in shares	75,526,000 (L) 2,968,000 (S)	6.87% 0.27%
EJ Holdings Ltd.	Interest of a controlled corporation (note 2)	66,226,000 (L)	6.02%
Pinpoint Capital Management Group	Interest of a controlled corporation (note 2)	66,226,000 (L)	6.02%
Wang Qiang	Interest of a controlled corporation (note 2)	66,226,000 (L)	6.02%
Pinpoint China Fund	Beneficial owner (note 2)	55,430,000 (L)	5.04%
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	55,004,388 (L) 55,004,388 (P)	5.00% 5.00%

(L): long position

(S): short position

(P): lending pool

Notes:

1. The 407,093,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren. The interest in 500,000 Shares arises from the shares options granted to Ms Yang Yaping, spouse of Mr. Zhang Tianren. Ms Yang Yaping, being the spouse of Mr Zhang Tianren, is deemed to be interested in the shares held by Mr Zhang Tianren.

2. According to the information available to the Company, Pinpoint China Fund is wholly owned by Pinpoint Asset Management Ltd., which is in turn wholly owned by Pinpoint Capital Management Group. Pinpoint Capital Management Group is owned as to 64.50% by EJ Holdings Ltd., which is in turn wholly owned by Wang Qiang.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the then shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Details of the Company's share option scheme are set out in the note 33 to the financial statements.

On 30 March 2009, a total of 36,340,000 share options were offered to the eligible participants under the Scheme. 35,310,000 share options were accepted and granted on the same day. On 22 November 2010, a total of 44,720,000 share options were offered and granted to Directors and eligible participants under the Scheme. The details movement of Company's share options during the period under review are as follows:

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of Company's shares immediately before the date of grant (HK$)	Weighted average closing price of Company's shares immediately before the date of exercise (HK$)	Number of options outstanding as at 1 January 2012	Number of options granted during the period	Number of option exercised during the period	Number of options cancelled during the period	Number options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 31 December 2012	Approximate shareholding percentage of the underlying shares for the Options in the share capital of the Company
Ho Tso Hsiu (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.38	245,000	–	(105,000)	–	–	140,000	0.01%
Huang Dongliang (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.38	245,000	–	(105,000)	–	–	140,000	0.01%
Wang Jingzhong (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.38	245,000	–	(105,000)	–	–	140,000	0.01%
Other eligible participants	30/3/2009	30/03/2010 to 25/02/2017	1.22	1.22	4.38	21,546,000	–	(9,234,000)	–	(100,000)	12,212,000	1.11%
	22/11/2010	22/11/2011 to 21/11/2020	3.18	3.02	–	41,880,000	–	–	–	(2,160,000)	39,720,000	3.61%
						64,161,000	–	(9,549,000)	–	(2,260,000)	52,352,000	4.75%

No share option granted was granted during the period under review, no price disclosure is applicable.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All independent non-executive directors have signed the letters of appointment with the Company for an initial period of three years commencing 11 June 2007 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. The letters of appointment with the Company and independent non-executive directors expired on 10 June 2010. Thereafter, the terms of the independent non-executive directors have been renewed for a further term of one year in each year. By mutual agreement of both parties, the appointment was renewed for a further year commencing 11 June 2012. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association. The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in the "Connected Transactions" section of this annual report.

EMOLUMENT POLICY

The Group's emolument policies are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the directors or employee's relevant experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the board of directors to the relevant directors or employees under their remuneration package; and

(iii) the directors or employees who are eligible participants under the share option scheme may be granted, at the discretion of the board of directors, the share option scheme adopted by the Company, as part of their remuneration package.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 11% of the Group's turnover. The largest customer accounted for 3.53% of the Group's total turnover. During the year, the largest supplier accounted for 5.99% of the Group's total purchase and the Group's five largest suppliers accounted for 24.89% the Group's total purchase. At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in the any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this annual report.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2012, the Audit Committee comprised three independent non-executive directors, namely, Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2012.

DONATIONS

During the year ended 31 December 2012, the Group made charitable donations of RMB3,165,000.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its directors, at least 25% of the Company's total issued share capital are held by the public throughout the year ended 31 December 2012 as required under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Zhang Tianren
Chairman

Hong Kong
19 March 2013

Deloitte.
德勤

TO THE MEMBERS OF TIANNENG POWER INTERNATIONAL LIMITED
天能動力國際有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tianneng Power International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 127, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	8	**9,887,641**	5,438,321
Cost of sales		**(8,032,504)**	(4,003,204)
Gross profit		**1,855,137**	1,435,117
Other income	9	**129,854**	91,005
Other gains and losses	10	**(8,118)**	11,044
Selling and distribution costs		**(250,264)**	(164,868)
Administrative expenses		**(302,450)**	(197,940)
Research and development costs		**(293,586)**	(197,990)
Other operating expenses		**(95,234)**	(67,525)
Share of loss of an associate		**(439)**	(341)
Finance costs	11	**(122,385)**	(78,817)
Profit before taxation	12	**912,515**	829,685
Taxation	14	**(203,116)**	(213,698)
Profit and total comprehensive income for the year		**709,399**	615,987
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**710,137**	615,987
Non-controlling interests		**(738)**	–
		709,399	615,987
Earnings per share	16		
– Basic		**RMB0.648**	RMB0.566
– Diluted		**RMB0.640**	RMB0.559

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	**2012 RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment	17	**2,383,091**	1,583,479
Goodwill	18	**8,715**	–
Prepaid lease payments	19	**157,532**	102,241
Interest in an associate	20	**1,020**	1,459
Deferred tax assets	21	**126,944**	51,054
Deposit for acquisition of property, plant and equipment		**107,117**	27,358
		2,784,419	1,765,591
Current assets			
Inventories	22	**1,953,846**	1,124,737
Held-for-trading investments	23	**46,993**	34,611
Bills, trade and other receivables	24	**1,557,642**	822,166
Prepaid lease payments	19	**3,837**	2,261
Time deposit	26	**160,000**	110,000
Pledged bank deposits	26	**120,305**	166,100
Bank balances and cash	26	**813,669**	752,885
Other financial assets	27	**4,500**	4,500
		4,660,792	3,017,260
Current liabilities			
Bills, trade and other payables	28	**1,280,522**	709,980
Amounts due to related parties	29	**15,810**	65
Taxation payable		**102,254**	83,886
Bank borrowings – current portion	30	**2,357,796**	1,470,391
Short-term loan notes	31	**400,000**	–
		4,156,382	2,264,322
Net current assets		**504,410**	752,938
Total assets less current liabilities		**3,288,829**	2,518,529
Non-current liabilities			
Bank borrowings – non-current portion	30	**70,000**	–
Deferred tax liabilities	21	**17,893**	18,055
Long-term loan notes	31	**78,593**	–
		3,122,343	2,500,474
Capital and reserves			
Share capital	32	**107,696**	106,917
Reserves		**2,945,199**	2,393,557
Attributable to the owners of the Company		**3,052,895**	2,500,474
Non-controlling interest		**69,448**	–
Total equity		**3,122,343**	2,500,474

The financial statements on pages 58 to 127 were approved and authorised for issue by the board of directors on 19 March 2013 and are signed on its behalf by:

Zhang Tianren
DIRECTOR

Chen Minru
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000 (Note a)	**Capital reserve** RMB'000 (Note b)	**Share options reserves** RMB'000	**Non-distributable reserve** RMB'000 (Note c)	**Statutory surplus reserve fund** RMB'000 (Note d)	**Discretionary surplus reserve fund** RMB'000 (Note d)	**Accumulated profits** RMB'000	**Total** RMB'000	**Non-controlling interest** RMB'000	**Total** RMB'000
At 1 January 2011	106,377	707,263	10,000	57,010	10,835	12,460	150,473	28,066	873,678	1,956,162	–	1,956,162
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	615,987	615,987	–	615,987
Transfer	–	–	–	–	–	–	73,434	28,042	(101,476)	–	–	–
Issue of new shares upon exercise of share options	540	8,818	–	–	(2,775)	–	–	–	–	6,583	–	6,583
Dividend recognised as distribution (note 15)	–	–	–	–	–	–	–	–	(105,394)	(105,394)	–	(105,394)
Forfeiture of share options					(1,623)				1,623	–	–	–
Recognition of equity-settled share based payments (note 30)	–	–	–	–	27,136	–	–	–	–	27,136	–	27,136
At 31 December 2011 and 1 January 2012	106,917	716,081	10,000	57,010	33,573	12,460	223,907	56,108	1,284,418	2,500,474	–	2,500,474
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	710,137	710,137	(738)	709,399
Transfer	–	–	–	–	–	–	95,167	47,584	(142,751)	–	–	–
Non-controlling interests arising on the acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	56,686	56,686
Capital injection from non-controlling interest	–	–	–	–	–	–	–	–	–	–	13,500	13,500
Issue of new shares upon exercise of share option	779	12,901	–	–	(4,176)	–	–	–	–	9,504	–	9,504
Dividend recognised as distribution (note 15)	–	–	–	–	–	–	–	–	(186,543)	(186,543)	–	(186,543)
Forfeiture of share options	–	–	–	–	(2,166)	–	–	–	2,166	–	–	–
Recognition of equity-settled share based payment (note 30)	–	–	–	–	19,323	–	–	–	–	19,323	–	19,323
At 31 December 2012	107,696	728,982	10,000	57,010	46,554	12,460	319,074	103,692	1,667,427	3,052,895	69,448	3,122,343

Notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the shares issued by Tianneng International Investment Holdings Limited ("Tianneng BVI") and the aggregate amount of paid-in capital of the subsidiaries acquired by Tianneng BVI pursuant to the group reorganisation which took place in 2004 as more fully explained in the prospectus of the Company dated 29 May 2007.

(b) The capital reserve of the Group arose in June 2003 when the substantial shareholder and Executive Director, Mr. Zhang Tianren, transferred 26.3% of his shares in Tianneng Battery Group Co., Ltd. ("Tianneng Battery Group") to the key management personnel of the Group. The Group recognised the share-based payment expenses of approximately RMB57,010,000 on 15 June 2003 which represented the difference between the fair value of those shares of approximately RMB71,388,000 and the consideration received by Mr. Zhang Tianren from the key management personnel of approximately RMB14,378,000.

(c) The non-distributable reserve of the Group represents the difference between the consideration paid for acquisitions of additional interests in subsidiaries from non-controlling shareholders who are associates of Mr. Zhang Tianren and the non-controlling interests' share of net assets of the subsidiaries at the date of the acquisition.

(d) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the Group's PRC subsidiaries are required to maintain two reserves, being a statutory surplus reserve fund and a discretionary surplus reserve fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by their board of directors annually. Pursuant to the relevant laws and regulations in the PRC, it requires the appropriation to the statutory surplus reserve fund until the balance reaches 50% of the registered share capital. The statutory surplus reserve fund and the discretionary surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**912,515**	829,685
Adjustments for:			
Interest income		**(18,606)**	(5,982)
Interest expenses		**122,385**	78,817
Share of loss of an associate		**439**	341
Depreciation		**127,597**	77,756
Amortisation of prepaid lease payments		**2,511**	2,097
Write off/loss on disposal of property, plant and equipment		**17,359**	10,963
Allowance for bad and doubtful debts		**7,623**	9,162
Recognition of allowance for inventories		**24**	–
Share option expenses		**19,323**	27,136
Net gains on held-for-trading investments		**(21,104)**	(27,176)
Operating cash flows before movements in working capital		**1,170,066**	1,002,799
Increase in inventories		**(730,963)**	(305,963)
Increase in bills, trade and other receivables		**(643,009)**	(171,695)
Increase in trade and other payables		**394,378**	125,738
Increase in amounts due to related parties with trade nature		**1,191**	19
Increase (decrease) in held-for-trading investments		**5,629**	(11,342)
Dividend income received		**2,823**	3,320
Cash generated from operations		**200,115**	642,876
Interest paid		**(108,512)**	(64,579)
Income tax paid		**(263,746)**	(166,107)
Net cash from operating activities		**(172,143)**	412,190
Investing activities			
Interest received		**18,606**	5,982
Proceeds from disposal of property, plant and equipment		**48,851**	5,262
Purchase of property, plant and equipment		**(835,833)**	(679,626)
Placement of pledged bank deposits		**(120,305)**	(166,100)
Withdrawal of pledged bank deposits		**166,100**	64,983
Asset-related government grants received		**180,143**	13,905
Decrease (increase) of other financial assets		**–**	(4,500)
Deposit for acquisition of property, plant and equipment		**(79,759)**	(27,358)
Placement of time deposit		**(50,000)**	(110,000)
Prepaid lease payments		**(193,176)**	(12,788)
Net cash outflow relating to acquisition of subsidiaries	34	**(40,974)**	–
Net cash used in investing activities		**(906,347)**	(910,240)

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Financing activities			
Bank borrowings raised		**3,925,290**	2,324,391
Loan notes raised		**478,500**	–
Proceeds from issue of shares		**9,504**	6,583
Repayments of bank borrowings		**(2,986,885)**	(1,399,000)
Dividends paid		**(186,555)**	(105,342)
Capital injection from non-controlling interest		**13,500**	–
Repayment of amounts due to related parties		**(114,080)**	–
Net cash from financing activities		**1,139,274**	826,632
Net increase in cash and cash equivalents		**60,784**	328,582
Cash and cash equivalents at the beginning of the year		**752,885**	424,303
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**813,669**	752,885

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

The Company is an investment holding company and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 11 June 2007. The principal activities of its subsidiaries are set out in note 39.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset;
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has discounted bills receivables to banks with full recourse and transferred bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers with full recourse. The Group has derecognised these bills receivables and the payables to suppliers in their entirety as in the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to those bills receivables, and that the Group has discharged its obligations to suppliers upon settlement by endorsing bills. Therefore the directors consider that the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7(see note 25). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 1 Presentation of Financial Statements
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009 – 2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The adoption of other amendments to HKFRSs in the current year has had no material effect on the consolidated financial statements.

New and revised HKFRSs issued but not yet effective
The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the amendments to HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future is unlikely to have a significant impact.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Continued)

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

A detailed review will be performed by the directors to determine and quantify the impact on the application of HKFRS 10.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

Change in presentation of consolidated statement of comprehensive income

In the current year, the directors of the Company decided to change the classification of certain line items in the consolidated statement of comprehensive income by presenting warranty provision expenses as part of the Group's cost of sales to better reflect the financial information of the Group's activities. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for the year ended 31 December 2011.

The effect of changes in presentation for the prior year by line items presented in the consolidated statement of comprehensive income is as follows:

	Original stated RMB	**Adjustments** RMB	**Restated** RMB
Cost of sales	(3,906,161)	(97,043)	(4,003,204)
Selling and distribution costs	(261,911)	97,043	(164,868)
Change in profit for the year		–	

No consolidated statement of financial position as at 1 January 2011 has been presented as the change in accounting policy and re-classifications disclosed above have no effects on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading investments and other financial assets that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and, accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interest in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net interest in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate (Continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generated unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit and loss for the period in which they arise.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

The Group's held-for-trading investments are classified as financial assets at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets and is included in the other gains and losses in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills, trade and other receivables, pledged bank deposits, time deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a bills, trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bills, trade and other payables, amounts due to related parties, loan notes and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

At 31 December 2012, the carrying amount of property, plant and equipment amounted to approximately RMB2,383,091,000 (2011: RMB1,583,479,000), details of which are set out in note 17.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill is RMB8,715,000 (2011: nil), details of which are set out in note 18.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group does not have a general provision policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. Procedurewise, the sales and the marketing managers review the inventory aging listing on a periodical basis to identify any aged inventories. The carrying value of the aged inventory items is then compared to the respective net realisable value in order to ascertain whether allowance is required to be made for any obsolete and slow-moving items.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Inventories (Continued)

In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements. The management estimates the net realisable value for finished goods and consumables based primarily on the latest market prices and current market conditions. The net realisable value for finished goods and consumables will be affected if the actual future market prices and market conditions are less than expected. During the year, allowance for inventories amounted to RMB24,000 (2011: nil) was recognised, details of which are set out in note 12. As at 31 December 2012, the carrying amount of inventories is approximately RMB1,953,846,000 (2011: RMB1,124,737,000), details of which are set out in note 22.

Bills, trade and other receivables

Bills, trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimates, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's financial assets is devoted to trade and other receivables. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful bills and trade receivables, the responsible sales personnel discuss with the relevant customers and counterparties and report on the recoverability. For the identification of doubtful other receivables, management closely monitors the settlement status and evaluate the recoverability. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amounts of bills, trade and other receivables are approximately RMB621,269,000 (2011: RMB356,428,000), RMB587,923,000 (2011: RMB276,987,000) and RMB45,220,000 (2011: RMB23,533,000) respectively. The cumulative doubtful debts provision as at 31 December 2012 of trade and other receivables are RMB55,400,000 (2011: RMB48,272,000) and RMB5,703,000 (2011: RMB5,241,000), respectively. Details of the balances are set out in note 24.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of shares, issue of loan notes, and the raise of borrowings.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 **RMB'000**	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,338,857**	1,677,932
Financial assets at FVTPL		
Held-for-trading investments	**46,993**	34,611
Other financial assets	**4,500**	4,500
	51,493	39,111
Financial liabilities		
Amortised costs	**3,762,046**	1,897,270

Financial risk management objectives and policies

The Group's major financial instruments include bills, trade and other receivables, pledged bank deposits, time deposit, bank balances and cash, held-for-trading investments, other financial assets, bills, trade and other payables, amounts due to related parties, loan notes and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated and the management policies remain unchanged from prior year.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The Group collects all of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. The Group's sales are denominated in RMB and the disbursements were also mainly settled in RMB, which is the functional currency of the relevant subsidiaries. The Group's exposure to foreign currency risk is arising mainly from the bank balances and held-for-trading investments of the Group which are denominated in foreign currencies of the relevant group entities. Except for the bank balances, held-for-trading investments, certain bank borrowings and other payables denominated in foreign currencies of the relevant group entities, the group entities did not have any other monetary assets or liabilities denominated in foreign currencies as at the end of the reporting period. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
United State dollars ("US$")	**1,685**	43	**–**	–
Hong Kong dollars ("HK$")	**134,211**	139,439	**164,317**	108,595

Sensitivity analysis

The Group is mainly exposed to the currency risk on US$ and HK$ against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of RMB against the relevant currency and number below indicates a decrease in profit respectively. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	US$ impact (i)		**HK$ impact** (ii)	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year	**(72)**	(2)	**1,506**	2,399

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis (Continued)

(i) This is mainly attributable to the exposure outstanding on US$ bank balances at year end in the Group.

(ii) This is mainly attributable to the exposure to outstanding HK$ bank balances and held-for-trading investments at the year end.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposit, pledged bank deposit, loan notes and bank borrowings (see notes 26, 30 and 31 for details of these time deposit, pledged bank deposit, loan notes and bank borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate borrowings (see notes 26 and 30 for details of these bank balances and borrowings, respectively). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including bank balances and borrowings) at the end of the reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and borrowings.

10 basis point (2011: 10 basis point) increase or decrease on variable bank balances, and 100 basis points increase or decrease on variable-rate borrowings represents managements' assessment of the reasonably possible change in interest rates. If interest rates on variable-rate bank balances had been 10 basis point (2011: 10 basis point) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Increase in post-tax profit for the year	**750**	623

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rate on variable-rate bank balances had been 10 basis point (2011: 10 basis point) lower and all other variables were held constant.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

If the interest rate on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax profit for the year.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Decrease in post-tax profit for the year	**701**	2,034

The post-tax profit for the year would be increased by the same amount as mentioned above if interest rate on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments of an investee operating in battery industry sector quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group mitigates its price risk by performing detailed due diligence analysis of investment.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 10% in current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 10% higher/lower, post-tax profit for the year ended 31 December 2012 would increase/decrease by approximately RMB3,924,000 (2011:RMB3,028,000) as a result of the changes in fair value of held-for-trading investments.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to the Group's principal financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

There is concentration of credit risk on pledged deposits, time deposit and bank balances for the Group as at 31 December 2012 and 31 December 2011. As at 31 December 2012, balances with four largest banks accounted for 40% (2011: 67%) of total pledged deposits, time deposit and bank balances of the Group. The credit risk on liquid funds is limited because majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state owned banks with good reputation.

The Group's credit risk on bills and trade receivables is concentrated in the PRC. However, the exposure spreads over a large number of counterparties and customers.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand and less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31.12.2012 RMB'000
2012						
Non-derivative financial liabilities						
Non-interest bearing	–	584,404	268,319	2,934	855,657	855,657
Fixed rate instruments	6.19%	1,064,686	1,725,272	98,348	2,888,306	2,794,389
Variable rate instruments	6.03%	1,677	45,963	78,658	126,298	112,000
		1,650,767	2,039,554	179,940	3,870,261	3,762,046

In addition to the amounts shown in the above table as at 31 December 2012, the Group may also be required to settle the maximum exposure to loss arising from discounted bills and endorsed bills arrangements with full recourse as detailed in note 25 in the next 6 months, amounting to RMB1,081,026,000 in aggregate.

	Weighted average interest rate %	On demand and less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31.12.2011 RMB'000
2011						
Non-derivative financial liabilities						
Non-interest bearing	–	360,168	66,711	–	426,879	426,879
Fixed rate instruments	6.91%	322,095	693,659	–	1,015,754	988,000
Variable rate instruments	6.03%	173,550	321,544	–	495,094	482,391
		855,813	1,081,914	–	1,937,727	1,897,270

6. FINANCIAL INSTRUMENTS (Continued)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values at the end of reporting period.

Fair value measurements recognised in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ("Level 2 measurements"); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The held-for-trading investments with carrying amount of RMB46,993,000 were level 1 measurements at 31 December 2012.

7. OPERATING SEGMENTS

For the purposes of resources allocation and performance assessment, the chief operating decision makers, Executive Directors, regularly review turnover for major products and market segment (note 8). However, the financial information provided to Executive Directors, does not contain profit or loss information of each product line or each market segment and the Executive Directors review the operating result of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment, being the manufacture and sales of lead-acid batteries and battery related accessories.

Segment revenues and results

The financial information presented to the Executive Director is consistent with the consolidated statement of comprehensive income.

The Executive director considers the Group's profit for the year as the measurement of segment's results.

Entity-wide disclosures

All non-current assets and sales are located and generated in the PRC. No individual customer accounted for over 10% of the Group's total revenue for both years.

8. TURNOVER

	2012 **RMB'000**	2011 RMB'000
An analysis of turnover is as follows:		
Lead-acid battery products		
Electrical Bicycle Battery	**9,231,881**	4,973,929
Storage Battery	**59,359**	42,258
Pure Electric Car Battery (Note)	**393,479**	276,432
Battery for other usage	**–**	2,075
Nickel hydride and lithium battery products	**98,421**	95,352
Electrode plates	**69,737**	–
Others	**34,764**	48,275
	9,887,641	5,438,321

Note: It includes battery products mainly for pure electronic sedans, electric forklifts, electric patrol cars and special-purpose electric cars.

9. OTHER INCOME

	2012 RMB'000	2011 RMB'000
Government grants (note)	**92,824**	70,541
Interest income	**18,606**	5,982
Others	**18,424**	14,482
	129,854	91,005

Note: The government grants mainly represent unconditional subsidies from the relevant development zones administrative committees and PRC local government to encourage the operations of certain subsidiaries.

10. OTHER GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Net gains on held-for-trading listed investments (note i)	**21,104**	27,176
Allowance for bad and doubtful debts	**(7,623)**	(9,162)
Written off/loss on disposal of property, plant and equipment (note ii)	**(17,359)**	(10,963)
Written off of inventory (note ii)	**(3,960)**	–
Net foreign exchange gains (losses)	**(280)**	3,993
	(8,118)	11,044

Note:

(i) Net gains on held-for-trading listed investments included dividend income of approximately RMB2,823,000 (2011: RMB3,320,000), gains on disposals of approximately RMB13,498,000 (2011: RMB23,526,000) and gains arising on change in fair value of approximately RMB4,783,000 (2011: RMB330,000), which earned on these held-for-trading investments during the year ended 31 December 2012.

(ii) During the year ended 31 December 2012, the carrying amount of certain property, plant and equipment of approximately RMB32,374,000, net of insurance compensation received of approximately RMB26,113,000, resulting in a loss of approximately RMB6,261,000 and inventories written off of approximately RMB3,960,000 (2011: nil) were recognised due to fire accidents occurred in the factories. The remaining carrying amount of property, plant and equipment of approximately RMB33,836,000 (2011: RMB16,225,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB22,738,000 (2011: RMB5,262,000), resulting in a loss of approximately RMB11,098,000 (2011: RMB10,963,000).

11. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interests on:		
– Bank borrowings wholly repayable within five years	**151,373**	63,566
– Long-term loan note not wholly repayable within five years	**93**	–
– Factorised bills receivable wholly repayable within five years	**6,343**	15,251
Total borrowing costs	**157,809**	78,817
Less: amounts capitalised	**(35,424)**	–
	122,385	78,817

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.21% (2011: nil) per annum to expenditure on qualifying assets.

12. PROFIT BEFORE TAXATION

	2012 RMB'000	2011 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 13)	**3,146**	2,973
Other staff retirement benefits scheme contributions	**37,312**	19,482
Other staff costs	**670,211**	403,195
Share-based payment expense for other staff	**19,257**	26,980
Total staff costs	**729,926**	452,630
Recognition of allowance for inventories (included in cost of sales)	**24**	–
Amortisation of prepaid lease payments	**2,511**	2,097
Auditor's remuneration	**3,395**	3,091
Cost of inventories recognised as expense	**8,032,504**	4,003,204
Depreciation	**127,597**	77,756

Share-based payments expense of approximately RMB19,323,000 (2011: RMB27,136,000) were recognised in profit or loss during the year ended 31 December 2012 in respect of share options of the Company. Details of transactions are set out in note 33.

13. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the nine (2011: ten) directors for the year ended 31 December 2012 were as follows:

	Year ended 31 December 2012									
	Zhang Tianren RMB'000 (note 1)	Zhang Aogen RMB'000	Chen Minru RMB'000	Zhang Kaihong RMB'000	Shi Borong RMB'000	Yang Lianming RMB'000	Ho Tso Hsiu RMB'000	Huang Dongliang RMB'000	Wang Jingzhong RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	200	200	200	600
Other emoluments										
Salaries and other benefits	589	410	410	410	410	190	–	–	–	2,419
Contributions to retirement benefits scheme	11	10	10	10	10	10	–	–	–	61
Share option expense	–	–	–	–	–	–	22	22	22	66
Total emoluments	600	420	420	420	420	200	222	222	222	3,146

	Year ended 31 December 2011										
	Zhang Tianren RMB'000 (note 1)	Zhang Aogen RMB'000	Chen Minru RMB'000	Zhang Kaihong RMB'000	Shi Borong RMB'000	Yang Lianming RMB'000	Ho Tso Hsiu RMB'000	Zheng Cheng Wen RMB'000 (note 2)	Huang Dongliang RMB'000	Wang Jingzhong RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	200	67	200	200	667
Other emoluments											
Salaries and other benefits	591	341	341	291	341	191	–	–	–	–	2,096
Contributions to retirement benefits scheme	9	9	9	9	9	9	–	–	–	–	54
Share option expense	–	–	–	–	–	–	39	39	39	39	156
Total emoluments	600	350	350	300	350	200	239	106	239	239	2,973

Note 1: Mr. Zhang Tianren is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Note 2: The director resigned on 7 May 2011.

13. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals included one (2011: one) director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2011: four) highest paid individuals during the year are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	**2,502**	1,948
Retirement benefits scheme contributions	**46**	38
Share option expense	**84**	630
	2,632	2,616

Their emoluments are within the following band:

	Number of employees 2012	 2011
Nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**1**	–

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during both years.

14. TAXATION

The charge comprises:

	2012 RMB'000	2011 RMB'000
Hong Kong		
– Current tax	**2,182**	3,857
PRC Enterprise Income Tax ("EIT"):		
– Current tax	**252,803**	200,088
– (Over) Under provision in prior years	**(13,947)**	1,392
Withholding tax on distribution of earnings from PRC subsidiaries	**40,799**	6,778
	279,655	208,258
Deferred tax (credit) charge (note 21)	**(78,721)**	1,583
	203,116	213,698

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year ended 31 December 2012.

14. TAXATION (Continued)

Except as described below, provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 25% pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

Tianneng Battery Group Co., Ltd. was recognised as High-Tech company and has enjoyed the tax rate of 15% starting from 1 January 2010 until 31 December 2013.

Tianneng Battery (Wuhu) Co., Ltd. was recognised as High-Tech company in 2009 and 2012 respectively and the applicable tax rate is 15% from 1 January 2009 to 31 December 2014.

Zhejiang Tianneng Energy Technology Co., Ltd. was recognised as High-Tech company in 2009 and 2012 respectively and the applicable tax rate is 15% from 1 January 2009 to 31 December 2014.

Withholding tax of approximately RMB22,799,000 (2011: RMB24,778,000) has been provided for in the year ended 31 December 2012 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

The taxation charge for the year can be reconciled to the profit before taxation per consolidated statement of comprehensive income as follows:

	2012		2011	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**912,515**		829,685	
Tax at the applicable income tax rate of 25% (2011: 25%) (note)	**228,129**	**25.0**	207,421	25.0
Tax effect of expenses not deductible for tax purposes	**10,036**	**1.1**	5,127	0.6
Tax effect of tax losses not recognised	**5,108**	**0.6**	1,285	0.2
Tax effect of deductible temporary differences not recognised	**3,934**	**0.4**	2,793	0.3
Utilisation of tax losses and deductible temporary differences previously not recognised	**(4,603)**	**(0.5)**	(160)	–
Income tax on concessionary rate	**(29,572)**	**(3.2)**	(18,744)	(2.3)
(Over) under provision in prior years	**(13,947)**	**(1.5)**	1,392	0.2
Tax effect of additional deduction related to research and development cost and certain staff costs	**(18,768)**	**(2.1)**	(10,194)	(1.2)
Withholding tax on undistributed profit of PRC subsidiaries	**22,799**	**2.5**	24,778	3.0
Taxation charge and effective tax rate for the year	**203,116**	**22.3**	213,698	25.8

Note: The domestic income tax rate of 25% (2011: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

15. DIVIDENDS

	2012 RMB'000	2011 RMB'000
2011 final dividend recognised as distribution of HK20.8 cents (equivalent to RMB16.9 cents) (2010: HK11.6 cents (equivalent to RMB9.8 cents)) per ordinary share	**186,543**	105,394
2012 final dividend proposed of HK23.8 cents (equivalent to RMB19.19 cents) (2011: HK20.8 cents (equivalent to RMB16.9 cents)) per ordinary share	**210,965**	183,768

A final dividend of HK23.8 cents (equivalent to RMB19.19 cents) per ordinary share (2011: HK20.8 cents (equivalent to RMB16.9 cents) per share) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

16. EARNINGS PER SHARE

	2012 RMB'000	2011 RMB'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	**710,137**	615,987
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,096,522,542**	1,087,883,997
Effect of dilutive potential ordinary shares – share options	**13,394,475**	14,499,506
Weighted average number of ordinary shares for the purpose of calculating diluted earnings for share	**1,109,917,017**	1,102,383,503

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011	381,685	500,835	23,379	26,880	747	244,441	1,177,967
Additions	19,226	35,082	10,386	16,025	–	615,097	695,816
Transfer	135,607	116,009	824	3,579	–	(256,019)	–
Disposals/write-off	(4,477)	(19,321)	(2,306)	(103)	–	(963)	(27,170)
At 31 December 2011	532,041	632,605	32,283	46,381	747	602,556	1,846,613
Acquired on acquisition of subsidiaries (note 34)	119,508	99,368	1,771	3,066	2,892	3,905	230,510
Additions	19,257	86,410	13,570	31,246	–	612,426	762,909
Transfer	271,737	228,297	–	22,314	–	(522,348)	–
Disposals/write-off	(23,468)	(83,989)	(924)	(950)	–	–	(109,331)
At 31 December 2012	919,075	962,691	46,700	102,057	3,639	696,539	2,730,701
DEPRECIATION							
At 1 January 2011	57,809	116,666	10,927	10,253	668	–	196,323
Provided for the year	19,708	49,291	3,429	5,277	51	–	77,756
Eliminated on disposals/ write-off	(906)	(8,011)	(1,952)	(76)	–	–	(10,945)
At 31 December 2011	76,611	157,946	12,404	15,454	719	–	263,134
Provided for the year	35,735	75,107	5,798	10,890	67	–	127,597
Eliminated on disposals/ write-off	(3,735)	(38,472)	(577)	(337)	–	–	(43,121)
At 31 December 2012	108,611	194,581	17,625	26,007	786	–	347,610
CARRYING VALUES							
At 31 December 2012	810,464	768,110	29,075	76,050	2,853	696,539	2,383,091
At 31 December 2011	455,430	474,659	19,879	30,927	28	602,556	1,583,479

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5-10 years
Leasehold improvement	5 years

As at 31 December 2012, included in buildings held for own use are buildings with aggregate carrying amount of approximately RMB128,004,000 (2011: RMB131,070,000), of which the official legal titles of these buildings have not been obtained.

During the year ended 31 December 2012, the Group received government grant of approximately RMB21,500,000 (2011: 8,323,000) in relation to certain property, plant and equipment of the Group. The Group recognised the amount as a deduction from the carrying amount of the relevant assets and will transfer this to profit or loss over the useful lives of the assets.

18. GOODWILL

Cost	2012 RMB'000	2011 RMB'000
At beginning of the year	–	–
Arising from acquisition of subsidiaries (note 34)	8,715	–
At the end of the year	8,715	–

On 31 July 2012, the Group acquired a 51% equity interest in 濟源市萬洋綠色能源有限公司 Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wanyang") from an independent third party at a cash consideration of approximately RMB56,250,000, resulting in goodwill of RMB499,000 as disclosed in note 34.

On 31 July 2012, the Group acquired a 70% equity interest in 安徽中能電源有限公司 Anhui Zhongneng Power Supply Co., Ltd. ("Anhui Zhongneng") from independent third parties at a cash consideration of approximately RMB15,500,000, resulting in goodwill of RMB8,216,000 as disclosed in note 34.

	2012 RMB'000	2011 RMB'000
Jiyuan Wanyang	499	–
Anhui Zhongneng	8,216	–
At the end of the year	8,715	–

18. GOODWILL (Continued)

For the purposes of impairment testing, two subsidiaries are considered as two cash-generating units ("CGU") as the two acquired subsidiaries can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets. During the year ended 31 December 2012, management of the Group determines that there is no impairment of its CGUs. The basis of the estimation of the recoverable amount of the above CGUs and the major underlying assumptions are summarised below:

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14%. The CGU's cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3%. The growth rate used is based on management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

19. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	RMB'000
Non-current	**157,532**	102,241
Current	**3,837**	2,261
	161,369	104,502

As at 31 December 2012, included in prepaid lease payments are land use rights of RMB4,714,000 (2011: RMB3,939,000), of which the official land use rights titles have not been obtained.

The amount represents prepayment for land use rights situated in the PRC for a period of 50 years.

During the year ended 31 December 2012, the Group received government grant of approximately RMB158,643,000 (2011: 5,582,000) in relation to certain land leases of the Group. The Group recognised the amount as a deduction from the carrying amount of the relevant assets and will transfer this to profit or loss over the useful lives of the land leases.

20. INTEREST IN AN ASSOCIATE

	2012	2011
	RMB'000	RMB'000
Cost of investment in an unlisted entity	**1,800**	1,800
Share of post-acquisition losses	**(780)**	(341)
	1,020	1,459

20. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the Group's associate at 31 December 2012 and 31 December 2011 are as follows:

Name of associate	Place and date of establishment and operation	Fully paid registered capital	Attributable equity interest to the Group 2012	2011	Principle activity
金華三方新能源汽車服務有限公司 (Sanfang New Energy Automobile Services Co. Ltd.)	PRC – Limited liability company 31 December 2010	Registered capital – RMB6,000,000	**30%**	30%	Rental of electrical motor vehicle

The summarised financial information in respect of the Group's associate is set out below:

	2012 RMB'000	2011 RMB'000
Total assets	**3,654**	5,095
Total liabilities	**253**	232
Net assets	**3,401**	4,863
Group's share of net assets of an associate	**1,020**	1,459

	2012 RMB'000	2011 RMB'000
Revenue	**87**	26
Loss for the year	**(1,463)**	(1,137)
Group's share of loss of an associate for the year	**(439)**	(341)

21. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Deferred income RMB'000	Withholding tax RMB'000	Fair value adjustment on property, plant and equipment and prepaid lease payment arising from acquisition of subsidiaries RMB'000	Interest capitalisation RMB'000	Fair value change of held-for-trading investment RMB'000	Provision for inventories, trade and other receivables RMB'000	Accrued warranty RMB'000	Accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	–	–	–	–	–	10,016	4,716	19,850	–	34,582
(Charge)/credit to profit or loss	–	(24,778)	–	–	(55)	1,958	2,746	11,768	–	(8,361)
Transfer to withholding tax on distribution of earnings from PRC subsidiaries	–	6,778	–	–	–	–	–	–	–	6,778
At 31 December 2011 and 1 January 2012	-	(18,000)	-	-	(55)	11,974	7,462	31,618	-	32,999
Arising on acquisition of subsidiaries (note 34)	-		(2,768)	-	-	99	-	-	-	(2,669)
(Charge)/credit to profit or loss	41,944	(22,799)	1,126	(8,548)	(734)	1,534	2,547	29,064	(6,212)	37,922
Transfer to withholding tax on distribution of earnings from PRC subsidiaries	-	40,799	-	-	-	-	-	-	-	40,799
At 31 December 2012	41,944	-	(1,642)	(8,548)	(789)	13,607	10,009	60,682	(6,212)	109,051

The following is the analysis of the deferred tax balance for financial report presentation purposes.

	2012 RMB'000	2011 RMB'000
Deferred tax assets	**126,944**	51,054
Deferred tax liabilities	**(17,893)**	(18,055)
	109,051	32,999

At 31 December 2012, the Group has not recognised deductible temporary differences on provision for inventories, trade and other receivables, accrued warranty and other accrued expenses of approximately RMB22,396,000 (2011: RMB17,217,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2012, the Group had unused tax losses of approximately RMB54,920,000 (2011: RMB45,496,000) available to offset against future profits. No deferred tax assets been recognised in respect of such losses due to unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2017 (2011: 2016).

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB1,550 million (31.12.2011: RMB1,056 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future, therefore, it is probable that such difference will not reverse in the foreseeable future.

22. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	663,511	347,919
Work-in-progress	1,242,580	736,333
Finished goods	47,755	40,485
	1,953,846	1,124,737

23. HELD-FOR-TRADING INVESTMENTS

At 31 December 2012, the investments represent equity securities listed in Hong Kong. Fair values are determined with reference to quoted market bid prices.

24. BILLS, TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Bills receivables	621,269	356,428
Trade receivables	643,323	325,259
Less: Allowance for bad and doubtful debts	(55,400)	(48,272)
	587,923	276,987
Other receivables	50,923	28,774
Less: Allowance for bad and doubtful debts	(5,703)	(5,241)
	45,220	23,533
Prepayments	100,601	63,807
Value Added Tax receivables	202,629	101,411
	1,557,642	822,166

24. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of bills receivables at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
0 to 180 days	**621,269**	354,928
181 to 365 days	**–**	1,500
	621,269	356,428

The Group has a policy of allowing an average credit period of 45 days (2011: 45 days) for trade debtors. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012 RMB'000	2011 RMB'000
0 to 45 days	**459,186**	227,705
46 to 90 days	**92,052**	17,714
91 to 180 days	**27,653**	21,802
181 to 365 days	**9,032**	9,766
	587,923	276,987

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers trade receivables that are neither past due nor impaired to be of a good credit quality.

Other receivables are unsecured, interest-free and are repayable on demand.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB128,737,000 (2011: RMB49,282,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

24. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables which are past due but not impaired:

	2012	2011
	RMB'000	RMB'000
46 to 90 days	**92,052**	17,714
91 to 180 days	**27,653**	21,802
181 to 365 days	**9,032**	9,766
	128,737	49,282

Based on the historical experience of the Group, trade receivables which are past due for less than one year but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The Group has no significant concentration of credit risk on bills, trade and other receivables, with exposure spreading over a large number of counterparties and customers.

The Group has provided fully for trade and other receivables over 1 year which are expected not recoverable because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable. Impairment for trade receivables over 45 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment.

Movement in the allowance for doubtful debts-trade receivables

	2012	2011
	RMB'000	RMB'000
1 January	**48,272**	39,220
Allowance for bad and doubtful debts	**7,483**	9,366
Reversal of bad and doubtful debts	**(355)**	(314)
31 December	**55,400**	48,272

24. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts – other receivables

	2012 RMB'000	2011 RMB'000
1 January	**5,241**	5,131
Allowance for bad and doubtful debts	**1,121**	504
Reversal of bad and doubtful debts	**(626)**	(394)
Amounts written off as uncollectible	**(33)**	–
31 December	**5,703**	5,241

In determining the recoverability of the trade and other receivables, the Group reassesses the credit quality of the trade and other receivables from the date credit was initially granted up to the reporting date. Based on the historical experience of the Group, the directors believe that no further allowance is required.

25. TRANSFERS OF FINANCIAL ASSETS

As discussed in note 2, at 31 December 2012, the Group has discounted bills receivables to banks and transferred bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers. In the opinion of the directors of the Company, the Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2012, the Group's maximum exposure to loss, which is same as the amount payable by the Group to banks or the suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB195,964,000 and RMB885,062,000, respectively.

All the bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/TIME DEPOSIT

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits in 2012 carried interest rate ranging from 3.05% to 3.30% (2011: 2.2% to 3.3%) per annum.

Bank balances and cash comprise cash at bank that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank balances in 2012 carry interest at market rates which ranged from 0.001% to 0.35% (2011: 0.001% to 1.31%) per annum.

Time deposit represented bank deposits placed in a bank in the PRC with maturity in one year. The interest rate is fixed at 3.25% (2011: 3.25%) per annum.

At 31 December 2012, certain time deposit, bank balances and cash and pledged bank deposits of approximately RMB1,005,681,000 (2011: RMB908,133,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

27. OTHER FINANCIAL ASSETS

	2012 **RMB'000**	2011 RMB'000
Financial assets designated as at FVTPL	**4,500**	4,500

At 31 December 2012, the Group had a contract with a bank for a period of one month. The significant terms and conditions relating to the financial assets as FVTPL were as follows:

Notional amount	**Start date**	**End date**	**Interest rate**
RMB4,500,000	21 December 2012	8 January 2013	variable

The product was a principal-protected deposit. Yield rate was related to the net value of an index, namely Total Assets Spot ("NVTAS") which is a portfolio of debt securities, after deducting management fee payable to the bank on each business date ("Daily Appreciation") during the contracted period.

The other financial assets at 31 December 2012 had been fully settled on 8 January 2013 with yield rate of 2.3%. The director of the Company consider that the fair value of the other financial assets approximated to its carrying value at 31 December 2012.

28. BILLS, TRADE AND OTHER PAYABLES

	2012 **RMB'000**	2011 RMB'000
Trade payables	**533,863**	273,958
Bills payables	**–**	19,130
Other payables and accrued charges (note)	**746,659**	416,892
	1,280,522	709,980

28. BILLS, TRADE AND OTHER PAYABLES (Continued)

Note: Included in the other payables and accrued charges is an amount of RMB43,103,000 (2011: RMB32,309,000) being warranty provisions which represents management's best estimate of the Group's liability under 8 to 15 months warranty period granted on battery products, based on prior experience and industry averages for defective products, details of the movement in the warranty provisions are set out as below:

	2012 RMB'000	2011 RMB'000
At 1 January 2012	32,309	21,175
Provision in the year	200,719	97,043
Utilisation of provision	(189,925)	(85,909)
At 31 December 2012	43,103	32,309

The Group normally receives credit terms of 5 days to 90 days (2011: 5 days to 90 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2012 RMB'000	2011 RMB'000
0 to 90 days	474,281	224,008
91 to 180 days	40,769	31,555
181 to 365 days	11,711	14,834
1 to 2 years	3,647	1,600
Over 2 years	3,455	1,961
	533,863	273,958

29. AMOUNTS DUE TO RELATED PARTIES

Details of the amounts due to related parties are as follows:

Name of related parties	**2012** **RMB'000**	2011 RMB'000
浙江長興欣欣包裝有限公司 Zhejiang Changxing Xin Xin Packaging Co., Ltd. ("Xin Xin Packaging") (note i)	**124**	65
朱忠華 Zhu, Zhonghua (note ii)	**3,644**	–
陳亞琴 Chen, Yaqin (note iii)	**10,910**	–
濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wanyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note iv)	**1,132**	–
	15,810	65

Note:

(i) Xin Xin Packaging is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, who are the cousin and niece respectively of Mr. Zhang Tianren ("Mr. Zhang"). As at 31 December 2012, 407,593,650 shares of the Company (approximately 37.03% of the total issued shares of the Company as at 31December 2012) are held by Prime Leader Global Limited which is incorporated in the British Virgin Island and is wholly-owned by Mr. Zhang. Mr Zhang is also a director of the Company.

(ii) Zhu, Zhonghua is a non-controlling party of Anhui Zhongneng, a 70% owned subsidiary of the Group.

(iii) Chen, Yaqin is the spouse of Zhu, Zhonghua.

(iv) Wanyang Group is controlled by the non-controlling party of Jiyuan Wanyang, a 51% owned subsidiary of the Group.

The amounts due to Xin Xin Packaging and Wanyang Group are trade nature and have no fixed repayment terms and age less than 180 days.

The amounts due to Zhu, Zhonghua and Chen, Yaqin are non-trade nature, unsecured, non-interest bearing and repayable on demand.

30. BANK BORROWINGS

	2012 RMB'000	2011 RMB'000
Secured	**1,033,670**	93,500
Unsecured	**1,394,126**	1,376,891
	2,427,796	1,470,391
Carrying amounts repayable:		
Within one year	**2,357,796**	1,470,391
More than two years but not more than five years	**70,000**	–
	2,427,796	1,470,391
Less: Amounts due within one year shown under current liabilities	**(2,357,796)**	(1,470,391)
Amounts shown under non-current liabilities	**70,000**	–

The bank borrowings at 31 December 2012 are denominated in RMB and carry fixed and variable interest rates ranging from 3.59% to 7.60% (2011: 3.75% to 8.20%) per annum, respectively.

Details of assets pledged by the Group at the end of the reporting period are set out in note 35.

31. LOAN NOTES

	2012 RMB'000	2011 RMB'000
Unsecured loan notes	**478,593**	–
Analysed as:		
Short-term loan notes (note 1)	**400,000**	–
Long-term loan notes (note 2)	**78,593**	–
	478,593	–

Notes:

(1) On 19 September 2012, Tianneng Battery Group Co., Ltd ("**Tianneng Battery**"), a wholly-owned subsidiary of the Company, obtained the notification of acceptance from relevant PRC government authority for the registration and issue of short-term financing loan notes with a total amount of RMB750 million issuable within two years from the date of issue of the above notification of acceptance. On 24 October 2012, Tianneng Battery issued the first tranche of such loan notes with a principal amount of RMB400 million which bears interest at 6.55% per annum and is repayable within one year from the date of issue.

(2) On 19 July 2012, Tianneng Battery (Wuhu) Co., Ltd issued a long-term loan notes with principal amount of RMB80,000,000 at a discount and received proceed of RMB78,500,000. The long-term loan notes bear interest at 7.3% per annum and is repayable on 19 July 2018.

At 31 December 2012, the amount is stated at amortised cost with effective interest rate at 7.70% per annum.

32. SHARE CAPITAL

	Number of shares 2012	Number of shares 2011	Amount equivalent to 2012 RMB'000	Amount equivalent to 2011 RMB'000
Shares of the Company with nominal value of HK$0.1 each				
Authorised:				
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	**2,000,000,000**	2,000,000,000	**212,780**	212,780
Issued and fully paid:				
At beginning of year	**1,089,799,000**	1,083,327,000	**106,917**	106,377
Exercise of share options	**9,549,000**	6,472,000	**779**	540
At end of year	**1,099,348,000**	1,089,799,000	**107,696**	106,917

Note: During the year ended 31 December 2012, 9,549,000 share options were exercised at a subscription price of HK$1.22 per share (equivalent to approximately RMB0.995 per share), resulting in the issue of 9,549,000 ordinary shares of HK$0.10 each in the Company.

During the year ended 31 December 2011, 6,472,000 share options were exercised at a subscription price of HK$1.22 per share (equivalent to approximately RMB1.01 per share), resulting in the issue of 6,472,000 ordinary shares of HK$0.10 each in the Company.

All the shares issued by the Company during the year ended 31 December 2012 and 31 December 2011 ranked pari passu in all respects with all shares in issue.

33. SHARE OPTION SCHEMES

The Company has a share options scheme (the "Scheme") for eligible directors of the Company, eligible employees of the Group and other selected participants. According to the terms of the Scheme, option granted must be taken up within 28 days from the date of grant, upon payment of HK$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period determined by the board of directors which shall in any event not be more than ten years from the date of grant. Share options are vested over a period up to a maximum of four years after the date of grant.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in general meeting. The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares in issue on the date on which dealings in the shares first commence on the Stock Exchange, i.e. a total of 100,000,000 shares.

All holders of options granted under the Scheme may only exercise their options in the following manner:

Maximum percentage of options exercisable	**Vesting period**
10% of the options	Upon the first anniversary of the date of grant
Additional 20% of the options	Upon the second anniversary of the date of grant
Additional 30% of the options	Upon the third anniversary of the date of grant
Additional 40% of the options	Upon the fourth anniversary of the date of grant

33. SHARE OPTION SCHEMES (Continued)

No share option is granted during the year ended 31 December 2012 and 31 December 2011. The share options outstanding under the Scheme during the year ended 31 December 2012 and 31 December 2011 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2012	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2012
Directors								
Ho Tso Hsiu	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**245,000**	**–**	**(105,000)**	**–**	**140,000**
Huang Dongliang	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**245,000**	**–**	**(105,000)**	**–**	**140,000**
Wang Jingzhong	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**245,000**	**–**	**(105,000))**	**–**	**140,000**
Employees								
Employees	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**21,546,000**	**–**	**(9,234,000)**	**(100,000)**	**12,212,000**
Employees	22.11.2010	22.11.2011-21.11.2020	HK$3.18	**41,880,000**	**–**	**–**	**(2,160,000)**	**39,720,000**
				64,161,000	**–**	**(9,549,000)**	**(2,260,000)**	**52,352,000**
Exercisable at the end of the year								**11,916,000**
Weighted average exercise price				**HK$2.50**	**–**	**HK$1.22**	**HK$3.10**	**HK$2.71**

Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2011
Directors								
Ho Tso Hsiu	30.3.2009	30.3.2010-25.2.2017	HK$1.22	315,000	–	(70,000)	–	245,000
Huang Dongliang	30.3.2009	30.3.2010-25.2.2017	HK$1.22	315,000	–	(70,000)	–	245,000
Wang Jingzhong	30.3.2009	30.3.2010-25.2.2017	HK$1.22	315,000	–	(70,000)	–	245,000
Employees								
Employees	30.3.2009	30.3.2010-25.2.2017	HK$1.22	28,557,000	–	(6,262,000)	(749,000)	21,546,000
Employees	22.11.2010	22.11.2011-21.11.2020	HK$3.18	44,170,000	–	–	(2,290,000)	41,880,000
				73,672,000	–	(6,472,000)	(3,039,000)	64,161,000
Exercisable at the end of the year								4,188,000
Weighted average exercise price				HK$2.40	–	HK$1.22	HK$2.70	HK$2.50

33. SHARE OPTION SCHEMES (Continued)

At 31 December 2012, the number of share in respect of options under the Share Option Scheme had been granted and remained outstanding was 52,352,000 (2011: 64,161,000), representing 4.76% (2011: 5.89%) of the shares of the Company in issue at that date.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$4.38 (2011: HK$4.21) per share.

The closing price of the Company's shares immediately before 30 March 2009, the date of grant of the options was HK$1.22(equivalent to approximately RMB1.08) and the total estimated fair value of the share options granted on that date was HK$18,744,000 (equivalent to approximately RMB16,593,000).

The closing price of the Company's shares immediately before 22 November 2010, the date of grant of the options was HK$3.15 (equivalent to approximately RMB2.70) and the total estimated fair value of the share options granted on that date was HK$73,820,000 (equivalent to approximately RMB63,205,000).

Details of the fair value of the share options determined at the date of grant using the Binomial option pricing model ("Binomial model") are with the following inputs and based on the respective vesting period of the share options:

	22.11.2010	30.3.2009
Stock price as at grant date	HK$3.15	HK$1.22
Exercise price	HK$3.18	HK$1.22
Expected volatility	64%	64%
Expected life of options	10 years	7.9 years
Risk free rate	2.427%	1.852%
Expected dividend yield	2.9%	4.02%
Sub-optimal exercise factor for directors/ senior management/employees	nil/2.8/2.2	2/2/1.5

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expected volatility was determined by using the historical volatility of the Company's share prices over the previous four years. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended 31 December 2012, the Group recognised total expenses of RMB19,323,000 (2011: RMB27,136,000) in relation to share options granted by the Company.

34. ACQUISITION OF SUBSIDIARIES

Year ended 31 December 2012:

(i) On 31 May 2012, the Group completed the acquisition of 100% interest in 浙江赫克力能源有限公司Zhejiang Hercules Energy Co., Ltd ("Hercules", previously known as "Zhejiang Huayi Power Supply Co., Ltd.") from an independent third party, at a cash consideration of RMB60,780,000. The acquisition has been accounted for as acquisition of assets and assumption of liabilities since Hercules has ceased operation and the purpose of the acquisition is to purchase Hercules' existing land and buildings in the PRC for the expansion of production capacity of the Group.

Net assets of Hercules acquired are as follows:

	Hercules RMB'000
Property, plant and equipment	92,385
Prepaid lease payment	18,160
Receivables	30,468
Bank balances and cash	29,075
Payables and accruals	(109,308)
	60,780
Total consideration, satisfied by cash	60,780
Net cash inflow arising on acquisition:	
Cash consideration paid	(60,780)
Bank balance and cash acquired	29,075
	(31,705)

(ii) On 31 July 2012, the Group acquired 70% equity interest of Anhui Zhongneng and 51% equity interest of Jiyuan Wanyang for cash consideration of RMB15,500,000 and RMB56,250,000 respectively, from independent third parties. Bother acquisitions have been accounted for using the acquisition method. The aggregate amount of goodwill arising as a result of the acquisitions was RMB8,715,000. Anhui Zhongneng and Jiyuan Wanyang are engaged in the manufacture and sale of electrode plates, being one of the essential materials of the Group's lead acid motive battery products. Anhui Zhongneng and Jiyuan Wanyang were acquired so as to continue the expansion of the Group's production capacity of electrode plates and to facilitate its quality control of raw materials.

34. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) (Continued)

Consideration transferred:

	Anhui Zhongneng RMB'000	Jiyuan Wanyang RMB'000	Total RMB'000
Cash	15,500	56,250	71,750

Acquisition-related costs amount to approximately RMB982,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year.

Assets and liabilities recognised at the date of acquisition are as follows:

	Anhui Zhongneng RMB'000	Jiyuan Wanyang RMB'000	Total RMB'000
Property, plant and equipment	94,718	43,407	138,125
Prepaid lease payments	6,685	–	6,685
Deferred tax assets	–	850	850
Inventories	41,994	55,906	97,900
Trade and other receivables	43,271	26,351	69,622
Bank balances and cash	3,172	59,309	62,481
Trade and other payables	(38,806)	(65,706)	(104,512)
Amount due to related parties	(128,634)	–	(128,634)
Income tax liabilities	(73)	(204)	(277)
Borrowings	(9,000)	(10,000)	(19,000)
Deferred tax liabilities	(2,921)	(598)	(3,519)
	10,406	109,315	119,721

34. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) (Continued)

The fair value of trade and other receivables at the date of acquisition amounted to RMB69,622,000, approximates the gross contractual amount. There are no contractual cash flows not expected to be collected.

Goodwill arising on acquisition:

	Anhui Zhongneng RMB'000	Jiyuan Wanyang RMB'000	Total RMB'000
Consideration transferred	15,500	56,250	71,750
Plus: non-controlling interests	3,122	53,564	56,686
Less: recognised amount of identifiable net assets acquired	(10,406)	(109,315)	(119,721)
Goodwill arising on acquisition	8,216	499	8,715

The non-controlling interests in Anhui Zhongneng (30%) and Jiyuan Wanyang (49%) recognised at the acquisition date, respectively, were measured by reference to the proportionate share of recognised amounts of net assets of Anhui Zhongneng and Jiyuan Wanyang and amounted to RMB3,122,000 and RMB53,564,000, respectively.

Goodwill arose in the acquisition of Anhui Zhongneng and Jiyuan Wanyang because the costs of the combinations included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquires. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Net cash outflow on the above acquisitions:

	Anhui Zhongneng RMB'000	Jiyuan Wanyang RMB'000	Total RMB'000
Cash consideration paid	(15,500)	(56,250)	(71,750)
Less: cash and cash equivalents acquired	3,172	59,309	62,481
	(12,328)	3,059	(9,269)

Note: Total net cash outflow on the acquisition of Hercules, Anhui Zhongneng and Jiyuan Wanyang is RMB40,974,000.

34. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) (Continued)

Impact of acquisition on the results of the Group:

Included in the profit for the year was a loss of RMB1,393,000 attributable to Anhui Zhongneng and a loss of RMB654,000 attributable to Jiyuan Wanyang. Revenue for the year includes RMB148,850,000 generated from Anhui Zhongneng and RMB143,747,000 from Jiyuan Wanyang, respectively.

Had the above acquisitions been completed on 1 January 2012, total group revenue for the year would have been RMB10,151 million, and profit for the year would have been RMB707 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

Year ended 31 December 2011:

There was no acquisition of subsidiaries during the year.

35. PLEDGE OF ASSETS

At the end of reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group.

	2012 **RMB'000**	2011 RMB'000
Bank deposits	**120,305**	166,100
Bills receivables	**148,774**	90,506
Trade receivables	**409,981**	–
Property, plant and equipment	**34,661**	59,915
Prepaid lease payments	**17,879**	16,560
	731,600	333,081

36. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**369,525**	341,426

37. RETIREMENT BENEFITS SCHEME

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

38. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with its related companies:

Name of related company	Nature of transaction	2012 RMB'000	2011 RMB'000
Changxing Jin Ling Hotel (note)	Other expenses	**5,153**	3,224
Xin Xin Packaging	Purchase of consumables	**681**	209
Wanyang Group	Purchase of materials	**106,061**	–

Note: Changxing Jin Ling Hotel is controlled by Mr. Zhang.

(b) Details of the remuneration of directors and other members of key management during the year are set out in note 13.

(c) Details of the balances with related parties are set out in note 29.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place/Country of incorporation/ establishment and operations	Issued and fully paid share/registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company 2012	2011	Principal activities
Tianneng International Investment Holdings Limited (Note a)	British Virgin Islands/ Hong Kong 15 November 2004	Share-US$1 (2011: US$1)	**100%**	100%	Investment holding
浙江省長興天能電源有限公司 Zhejiang Changxing Tianneng Power Supply Co., Ltd.	PRC-Limited liability company 11 March 1998	Registered capital – RMB120,000,000 (2011: RMB120,000,000)	**100%**	100%	Manufacture and sales of lead-acid batteries
天能電池集團有限公司 Tianneng Battery Group Co., Ltd. (previously known as 浙江天能電池有限公司 Zhejiang Tianneng Battery Co., Ltd.)	PRC-Limited liability company 13 March 2003	Registered capital – RMB615,000,000 (2011: RMB615,000,000)	**100%**	100%	Investment holding, research and development, manufacture and sales of lead-acid batteries and battery related accessories
浙江天能能源科技有限公司 Zhejiang Tianneng Energy Technology Co., Ltd.	PRC-Limited liability company 1 July 2004	Registered capital – RMB136,000,000 (2011: RMB136,000,000)	**100%**	100%	Manufacture and sales of lithium batteries
長興天能汽車運輸有限公司 Changxing Tianneng Vehicle Transport Co., Ltd.	PRC-Limited liability company 30 May 2005	Registered capital – RMB500,000 (2011: RMB500,000)	**100%**	100%	Provision of transportation service to group companies
天能電池(蕪湖)有限公司 Tianneng Battery (Wuhu) Co., Ltd.	PRC-Limited liability company 21 October 2005	Registered capital – RMB230,000,000 (2011: RMB230,000,000)	**100%**	100%	Manufacture and sales of lead-acid batteries
浙江天能電池(江蘇)有限公司 Zhejiang Tianneng Battery (Jiangsu) Co., Ltd.	PRC-Limited liability company 9 May 2005	Registered capital – RMB200,000,000 (2011: RMB200,000,000)	**100%**	100%	Manufacture and sales of lead-acid batteries
浙江天能電池(江蘇)新能源有限公司 Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd.	PRC-Limited liability company 8 January 2008	Registered capital – RMB120,000,000 (2011: RMB120,000,000)	**100%**	100%	Manufacture and sales of storage batteries
浙江天能動力能源有限公司 Zhejiang Tianneng Power Energy Co., Ltd.	PRC-Limited liability company 2 July 2009	Registered capital – RMB100,000,000 (2011: RMB100,000,000)	**100%**	100%	Manufacture and sale of lead-acid batteries

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place/Country of incorporation/ establishment and operations	Issued and fully paid share/registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company 2012	2011	Principal activities
浙江天能電源材料有限公司 Zhejiang Tianneng Power Supply Material Co., Ltd.	PRC-Limited liability company 2 July 2009	Registered capital – RMB100,000,000 (2011: RMB100,000,000)	**100%**	100%	Research and development of recycled batteries
浙江天能能源科技研究院 Zhejiang Tianneng Energy Technology Research Center	PRC private non-enterprise entity 27 May 2009	Registered capital – RMB500,000 (2011: RMB500,000)	**100%**	100%	Research and development of storage batteries
浙江天能物資貿易有限公司 Zhejiang Tianneng Material Trading Co., Ltd.	PRC-Limited liability company 25 March 2009	Registered capital – RMB80,000,000 (2011: RMB80,000,000)	**100%**	100%	Sales of metal materials
天能電池集團(安徽)有限公司 Tianneng Battery Group (Anhui) Co., Ltd.	PRC-Limited liability company 4 November 2010	Registered capital – RMB20,000,000 (2011: RMB20,000,000)	**100%**	100%	Sales of metal materials
長興新天物資經營有限公司 Changxing Xintian Material Trading Co., Ltd.	PRC-Limited liability company 27 July 2009	Registered capital – RMB20,000,000 (2011: RMB20,000,000)	**100%**	100%	Sales of metal materials
濟源市萬洋綠色能源有限公司 Jiyuan Wanyang Green Energy Co., Ltd.	PRC-Limited liability company 27 October 2010	Registered capital – RMB102,160,000	**51%**	–	Manufacture and sale of electrode plates
安徽中能電源有限公司 Anhui Zhongneng Power Supply Co., Ltd.	PRC-Limited liability company 17 April 2008	Registered capital – RMB50,000,000	**70%**	–	Manufacture and sale of electrode plates
浙江赫克力能源有限公司 Zhejiang Hercules Energy Co., Ltd.	PRC-Limited liability company 10 November 2009	Registered capital – RMB60,000,000	**100%**	–	Manufacture and sales of lead-acid batteries re-cycled batteries

Note:

(a) Directly held by the Company.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

Tianneng Battery Group Co., Ltd. issued an unlisted short-term loan note of RMB 400 million in October 2012, and Tianneng Battery (Wuhu) Co., Ltd. issued an unlisted long-term loan note of RMB 80 million in July 2012, details of which are set out in note 31. All other subsidiaries had not issued any debt securities at the end of the year.

40. STATEMENT OF FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2012 **RMB'000**	2011 RMB'000
ASSETS		
Property, plant and equipment	**38**	46
Investments in and amount due from subsidiaries	**1,091,034**	1,143,051
Bank balances and cash	**8,780**	6,748
	1,099,852	1,149,845
LIABILITIES		
Other payables	**1,500**	1,079
NET ASSETS	**1,098,352**	1,148,766
CAPITAL AND RESERVES		
Share capital	**107,696**	106,917
Share premium	**728,982**	716,081
Reserves	**261,674**	325,768
Total equity	**1,098,352**	1,148,766

40. STATEMENT OF FINANCIAL INFORMATION OF THE COMPANY (Continued)

Movement in reserves

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	106,377	707,263	10,835	2,846	827,321
Profit for the year	–	–	–	393,120	393,120
Issue of new shares upon exercise of share option	540	8,818	(2,775)	–	6,583
Forfeiture of share options	–	–	(1,623)	1,623	–
Recognition of equity-settled share based payment	–	–	27,136	–	27,136
Dividend recognised as distribution	–	–	–	(105,394)	(105,394)
At 31 December 2011	106,917	716,081	33,573	292,195	1,148,766
Profit for the year	**–**	**–**	**–**	**107,302**	**107,302**
Issue of new shares upon exercise of share option	**779**	**12,901**	**(4,176)**	**–**	**9,504**
Forfeiture of share options	**–**	**–**	**(2,166)**	**2,166**	**–**
Recognition of equity-settled share based payment	**–**	**–**	**19,323**	**–**	**19,323**
Dividend recognised as distribution	**–**	**–**	**–**	**(186,543)**	**(186,543)**
At 31 December 2012	**107,696**	**728,982**	**46,554**	**215,120**	**1,098,352**

Financial Summary

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	2,585,301	2,254,947	3,752,813	5,438,321	**9,887,641**
Profit before taxation	278,598	319,674	428,752	829,685	**912,515**
Taxation	44,390	48,979	82,472	213,698	**203,116**
Profit for the year	234,208	270,695	346,280	615,987	**709,399**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,668,194	2,258,414	3,084,525	4,782,851	**7,445,211**
Total liabilities	431,912	575,892	1,128,363	2,282,377	**4,322,868**
Net assets	1,236,282	1,682,522	1,956,162	2,500,474	**3,122,343**